Supreme Court, U.S.
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NO. _____

In the
SUPREME COURT OF THE UNITED STATES
October Term 2003

JOHN P. SUTTON,

Petitioner,
Sanctioned attorney in the case of
PHONOMETRICS, INC.

v.

INTERSTATE HOTELS, LLC, CENDANT CORPORATION, FOUR SEASONS HOTELS LIMITED, GROSVENOR HOTEL and FAIRMONT HOTEL MANAGEMENT, and RHI HOTELS, INC.,

Respondents.

On Petition for Writ of Certiorari To the United States Court of Appeals For the Federal Circuit

PETITION FOR WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Can a Rule 11 motion that challenges no papers of Petitioner be transformed by the Federal Circuit into a challenge of two papers that were filed *after* the Rule 11 motion was filed?

2. Does the doctrine of collateral estoppel preclude a jury trial on the issue of whether Respondents, who use different equipment from that used in prior infringement cases, does or does not infringe?

3. Does the Seventh Amendment permit the Federal Circuit to be the final arbiter of the fact issue of whether the patent claim requires a display (a) to the "caller" or hotel guest, or (b) to the "calling telephone"?

CORPORATE DISCLOSURE STATEMENT

Petitioner Sutton is a California attorney not related to any corporation.

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PETITION FOR A WRIT OF CERTIORARI

John P. Sutton, an attorney who has been sanctioned under Federal Rule of Civil Procedure 11, prays for a writ of certiorari to the United States Court of Appeals for the Federal Circuit in this patent case.

OPINIONS BELOW

The Federal Circuit opinion dated November 21, 2003 is Appendix A (A-1 - 28).

The district court opinion dated April 12, 2002 is Appendix B (A-30 - 39.)

JURISDICTION

This is a patent case brought in the district court under 28 U.S.C. §1338(a). Federal Circuit jurisdiction was under 28 U.S.C. §1295(a)(1). This Court has jurisdiction under 28 U.S.C. §1254(1).

RELEVANT PROVISIONS INVOLVED

1. The Seventh Amendment to the United States Constitution (1791):

"In Suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved, and no fact tried by a jury, shall be otherwise reexamined in any Court of the United States, than according to the rules of the common law."

2. Federal Rule of Civil Procedure 11:

***

"**(b) Representations to Court.** By presenting to the court (whether by signing, filing, submitting, or later advocating) a pleading, written motion, or other paper, an attorney or unrepresented party is certifying that to the best of the person's knowledge, information, and belief, formed after an inquiry reasonable under the circumstances,—"

> (1) it is not being presented for any improper purpose, such as to harass or to cause unnecessary delay or needless increase in the cost of litigation;
>
> (2) the claims, defenses, and other legal contentions therein are warranted by existing law or by a nonfrivolous argument for the extension, modification, or reversal of existing law or the establishment of new law;
>
> (3) the allegations and other factual contentions have evidentiary support or, if specifically so identified, are likely to have evidentiary support after a reasonable opportunity for further investigation or discovery; and
>
> (4) the denials of factual contentions are warranted on the evidence or, if specifically so identified, are reasonably based on a lack of information, or belief.

***

3. Federal Rule of Civil Procedure 12(b)(6):

***

"**(b) How Presented.** Every defense, in law or fact, to a claim for relief in any pleading, whether a claim, counterclaim, cross-claim, or third party claim, shall be asserted in the responsive pleading thereto if one is required, except that the following defenses may at the option of the pleader be made by motion: . . . (6) failure to state a claim upon which relief can be granted. . ."

STATEMENT OF THE CASE

This is a patent case related to Petition 03-856, *Phonometrics Inc. v. Hyatt Corp. et al.* and a Petition in *Phonometrics Inc. v. Hospitality Franchise Systems Inc.* filed on or about January 30, 2004, involving the same patent. That Petition was rejected for improper type size and is being resubmitted with larger type. This case differs from the earlier Petitions in that Petitioner is the attorney who represented the corporate Petitioner in the earlier matters, and who was sanctioned under Fed. R. Civ. P. 11 for advocating the patent infringement claim in the district court.

The district court held that the refusal to withdraw or dismiss the complaint filed against Respondents in 1996 was a violation of Rule 11. Respondents did not challenge any paper filed by Petitioner. Rather, Respondents claimed that the duty was violated to dismiss the complaint, once it became clear that Petitioner could not prevail on the patent infringement claim. In opposition to the Rule 11 motion, Petitioner pointed out that "Rule 11 should not be used to raise issues of legal sufficiency that more properly can be disposed of by " summary judgment. The district court had expressly limited the lifting of the previously imposed stay "only for the purpose of hearing motions for summary

judgment" (A-56). Respondents instead filed a Rule 11 motion grounded on the failure to dismiss the complaint against Respondents. The district court granted the motion, stating that the "continued pursuit of frivolous claims is precisely what Rule 11 is meant to deter" (A-35). The "refusal to dismiss its claims after Choice Hotels was simply an egregious violation of Rule 11" (A-36)

Petitioner appealed to the Federal Circuit, claiming that "no pleading, written motion, or other paper" was presented that failed to comply with the requirements of Rule 11(b)" (A-13). The Federal Circuit noted that the district court found that the infringement argument in 1997 "was not completely baseless because there was no precedent from the Federal Circuit requiring such a display to the caller to find infringement" (A-14). Thus, the Complaint as filed was sufficient to allege infringement.

In addition, the Federal Circuit had reversed the district court's dismissal of the Complaint for failure to state a claim upon which relief can be granted in 2000. Thus, at least by 2000, the Complaint stated a cause of action. There had to be some paper or pleading certified by Petitioner after 2000 that could be challenged under Rule 11. There was no such paper.

The Federal Circuit affirmed the district court holding of Rule 11 violation, but on different grounds. It did *not* conclude that there was a duty to dismiss the Complaint imposed by Rule 11, as the district court did. It quoted the Advisory Committee Note to the 1993 Amendments to Subdivisions (b) and (c) that Subdivision (b) does not require a formal amendment to pleadings for which evidentiary support is not obtained (A-16). Rather, the Federal Circuit cited two papers signed by Petitioner that "later advocated" untenable positions in the view of the Federal Circuit. The

two papers were (1) "filing with the court its opposition to the Rule 11 motion" and (2) "opposition to the defendants joint motion for summary judgment" (A-15 - 16).

The two papers were not in the record before the Federal Circuit because the court strictly enforces its version of appellate rule 30 prohibiting the inclusion in the record of "briefs and memoranda in their entirety" (Fed. Cir. Rule 30(a)(2)(E)(iii)). It was, therefore, just a guess that the two documents of Petitioner "persisted in its position" that the infringement claim was viable (A-15). Had the court looked at the documents it believed were "later advocating" untenable positions in challenged papers, it would have found that both papers were filed *after* the Rule 11 challenge and could not have been subject to the safe harbor provisions of Rule 11. The Federal Circuit simply had the facts wrong.

The first paper, Appendix E, was dated January 16, 2002 (A-60), which was after the service of the motion. "[T]he revision provides that the 'safe harbor' period begins to run only upon service of the motion" (Advisory Committee Notes to 1993 Amendments to Subdivisions (b) and (c) of Rule 11). It could not have been amended to remove a claim of patent infringement because it was not challenged. More importantly, Appendix E (A-54 - 62) does not have a word about the legal sufficiency of the infringement claim because the whole point of the brief is that Rule 11 may not be used to determine the legal sufficiency of the infringement claim. The Federal Circuit *assumed* that the opposition to the Rule 11 motion was a paper that "persisted in its position" when it did not. Instead of guessing what the record showed, the court should have reversed the district court for holding that there was a duty to dismiss the Complaint and remanded for an examination of the record for violative papers. The Federal Circuit has a

proclivity to guess what the result might be without knowing.

The second paper, Appendix D (A-42 - 53) was dated March 29, 2002 (A-52), long after the Rule 11 motion was served and long after the "safe harbor" date. It was not challenged by Respondents, even though it did state the position on infringement. It had evidentiary support in the form of a Declaration of Qamar (A-44 - 46; A-51 - 52), thus meeting the requirement of Rule 11(b)(3). It has legal support (A-43 - 44; A-46 - 50), satisfying the requirement of Rule 11(b)(2). No claim is made that a response to a motion for summary judgment is for an "improper purpose" under Rule 11(b)(1). Had the Federal Circuit looked at the document for compliance with Rule 11, it could not have concluded that it was "completely without merit" (A-16).

REASONS FOR GRANTING THE PETITION

The Rule 11 motion in this case challenged no paper by Petitioner. Instead, it relied on a duty of petitioner to dismiss claims against Respondents. The evolution of Rule 11 shows that before the 1993 Amendments to the Rule, the drafters considered, but rejected, the inclusion of such a duty. On appeal, the Federal Circuit acknowledged that there is no such duty, but affirmed the sanction anyway, based on two unchallenged papers filed *after* the Rule 11 motion was filed that were not in the record before the court of appeal.

The Federal Circuit decided that PBX equipment made by a telephone company did not infringe the patent in 1998. It decided in 2001 that one chain of hotels, having different equipment than that made by the telephone company in the 1998 case, did not infringe the patent. Here, it decided that suit against a different group of hotels, not

shown to have the equipment of either the PBX maker in the 1998 case or the combination of the hotel chain in the 2001 case, was a Rule 11 violation. No trier of fact, in any of the cases, has decided the fact issue of infringement. Collateral estoppel does not apply to the issue of whether a decision that an earlier kind of equipment does not infringe precludes a later trial of the infringement issue as to other equipment. The recognition in the Federal Circuit opinion that Respondents equipment could display the cost of a call during the call if all inferences are made in favor of the nonmoving party shows that the opposition to summary judgment by Petitioner was factually supported and not a Rule 11 violation.

The sufficiency of the infringement claim should not be decided in a Rule 11 motion. Where there is "some support for its theories even in minority opinions," it should be taken into account in determining the sanction to be imposed. The sanction here was imposed to stifle the enthusiasm and chill the creativity of Petitioner, not deter dilatory practices.

ARGUMENT

As noted in the two previous Petitions related to this one, the Federal Circuit fails to distinguish between fact and law. The "deferential review" (A-20) should be to the trier of fact, a jury in this case and a district court judge under Rule 52(a) in *Cardinal Chemical Co v. Morton International, Inc.*, 508 U.S. 83 (1993). Deference, in the form of doubt resolution or inferences, is not to be paid to the district court, but to the nonmoving party in summary judgment or to the presenter under Rule 11. This court should exercise its supervisory authority over the Federal Circuit to properly follow the rules, as it did in *Cardinal Chemical*.

1. MISCONDUCT THAT DOES NOT INVOLVE PRESENTING A VIOLATIVE PAPER IS NOT SANCTIONABLE UNDER RULE 11.

The most complete treatise on the law of sanctions against attorneys is G.P. Joseph, *SANCTIONS The Federal Law of Litigation Abuse* (2000). The black letter law at §5(C) (page 87) is: "Rule 11 does not apply to all manner of misconduct but only to presenting a pleading, whether motion or other paper in violation of the Rule. Misconduct that does not involve presenting a violative paper to the court is not sanctionable under the rule."

Here, the district court held that Petitioner "was advocating legal theories which he knew were no longer tenable. Such continued pursuit of frivolous claims is precisely what Rule 11 is meant to deter." The Federal Circuit quotes that language with approval at A-15. However, the Federal Circuit did not quote the *holding* of the district court: "plaintiff's refusal to dismiss its claims after *Choice Hotels* was simply an egregious violation of Rule 11" (A-36). Instead, the court said, "the district court did not impose sanctions for the mere failure to withdraw non-meritorious claims" (A-16). This statement is simply not true.

In order to affirm the district court's sanctions, the result sought, the Federal Circuit said that two papers showed Petitioner was "later advocating" in challenged papers. The two papers that are said to be violative of Rule 11 are (1) "opposition to the Rule 11 motion" and (2) opposition to the defendants joint motion for summary judgment" (A-15 - 16). Neither document is examined in either the district court opinion (A-30 - 39) or in the Federal Circuit opinion (A-1 - 29).

The district court did *not* find that the oppositions to the Rule 11 motion or to the Rule 56 motion were violative papers. Instead it found a continuing duty to withdraw claims that were no longer tenable, contrary to Rule 11. "Rule 11 does not impose a continuing obligation on the presenter to update, correct or withdraw any pleading, written motion or other paper which, when presented, satisfies the requirements of the Rule" (Joseph, page 125). There was a proposal in 1991to impose an "obligation to withdraw from positions when they are no longer tenable," but it was widely criticized by the bar and the Advisory Committee reversed its earlier position in the 1993 Rule 11. It is now clarified "beyond doubt that there is no continuing duty" (Joseph, page 127). The Federal Circuit knew that failure to withdraw the complaint is not an appropriate basis for Rule 11 violation, but rather than reverse the district court, it substituted a new theory for liability under Rule 11 that was not present in the district court decision.

The September 1992 Report of the Judicial Conference Committee on Rules of Practice and Procedure observed that the "Committee amended the text of proposed Rule 11 . . . to clarify that the certification obligations of the rule apply only in connection with *an affirmative presentation of papers to the court* (rather than arguably upon mere passive failure to withdraw a previously filed paper)." Joseph, *supra*, at 89-90, emphasis added by Joseph. He concludes that passive failure to withdraw a complaint "will usually not be enough to comprise a sanctionable act."

At page 93, Joseph cites *Simpson v. Welch*, 900 F.2d 33, 36 (4th Cir. 1990): "Rule 11, by its own terms, can never be the basis for sanctions for failure to file certain papers." Particularly in this case, where the Federal Circuit reversed a holding that the complaints failed to state a claim upon which relief can be granted, a failure to withdraw a properly

pleaded complaint should not be sanctioned. The district court held that failure to withdraw the complaint was the basis for the Rule 11 sanctions (A-36). The Federal Circuit did not review the district court's order for error, because it was clear error to hold that refusal to dismiss complaints is a Rule 11 violation. Instead, it looked for a way to sustain the punishment of Sutton without relying solely on passive failure to withdraw the complaints.

Punishment of Sutton is the sole motivation for the decision of the Federal Circuit. It simply wants to shut Sutton up. It is tired of contending with Sutton's advocacy. It intends to stifle the enthusiasm and chill the creativity of the advocate. The Federal Circuit does not follow the second circuit in its interpretation of Rule 11:

> "[W]e do not intend to stifle the enthusiasm or chill the creativity that is the very lifeblood of the law. Vital changes have been wrought by those members of the bar who have dared to challenge the received wisdom, and a rule that penalized such innovation and industry would run counter to our notions of the common law itself. Courts must strive to avoid the wisdom of hindsight in determining whether a pleading was valid when signed, and any and all doubt must be resolved in favor of the signer." *Eastway Constr. Corp. v. City of New York*, 762 F.2d 243, 254 (2nd Cir. 1985).

This language, though not quoted, is found in the Advisory Committee Notes to the 1983 Amendment of Rule 11.

The two documents that the Federal Circuit identifies as violative are in Appendix D (A-42) and Appendix E (A-54). The only "legal theory" contained in the documents is that defendants infringe the patent claim under 35 U.S.C.

§271(a). Congress has stated that such a legal theory is proper, and the Federal Circuit held in 2000 that the complaint naming these Respondents as infringers met pleading requirements. There is nothing wrong with the "legal theory" under Rule 11(b)(2).

The opposition to the motion for Rule 11 sanctions cannot be a basis for Rule 11 sanctions because it is not a paper filed before the Rule 11 motion was filed. Rule 11(c)(1)(A) provides that a motion cannot be filed unless "the challenged paper" is allowed to be withdrawn or corrected. If the motion cannot be filed until the "safe harbor" provision is allowed, then the opposition to the motion cannot be the "challenged paper." It is impossible for the opposition to a Rule 11 motion to be the challenged paper.

As to the opposition to the motion for summary judgment, it must be examined to determine whether it was "presented for any improper purpose (Rule 11(b)(1)); whether it is "warranted by existing law or by a nonfrivolous argument for the extension, modification or reversal of existing law" (Rule 11(b)(2)); and whether the "factual contentions have evidentiary support" (Rule 11(b)(3)).

The opposition to the motion for summary judgment was not submitted for an improper purpose, and no contention has been made that it was. The legal support for the complaint has already been determined to be sufficient in the reversal of the Rule 12(b)(6) motion to dismiss. There can be no doubt that the complaint has support in existing law. If the words "to the caller" were added to the patent claim by the Federal Circuit in claim construction in *Northern Telecom* as a matter of law, it is a nonfrivolous argument for reversal of that law to point out that "calling telephone" is in the claim five times and "to the caller" is not

in the claim at all. That clearly is a fact issue, but if the insertion of "to the caller" was done as a matter of law, then there is a nonfrivolous argument for reversal.

The opposition to the motion for summary judgment was not challenged by Respondents, so the safe harbor provision of Rule 11(c)(1)(A) does not come into play with this document either. The Advisory Committee Notes to the 1993 Amendment to Subdivisions (b) and(c) state that a motion under Rule 11 "should be served promptly after the inappropriate paper is filed, and, if delayed too long, may be viewed as untimely." The opposition to the motion for summary judgment was dated March 29, 2002 (A-52). The Rule 11 motion was filed January 16, 2002, later than the paper that the Federal Circuit found to be inappropriate. That is untimely. It was error to rewrite the opinion of the district court to change dismissal of the complaints to opposition to the motion for summary judgment. The district court did not find the opposition to the summary judgment objectionable under Rule 11 and Respondents did not file a timely Rule 11 motion based on the opposition to the summary judgment.

Because neither the Opposition to the Motion for Sanctions nor the Opposition to the Motion for Summary Judgment were documents identified in the Motion for Sanctions, "Rule 11's notice requirement make [them] ineligible as a basis for sanctions." *Storey v. Cello Holdings LLC*, 347 F.3d 370 (2d Cir., Oct. 9, 2003).

"At a minimum, the notice required mandates that the subject of a sanctions motion be informed of...the specific conduct or omission for which the sanctions are being considered so that the subject of the sanctions motion can prepare a defense. Indeed, only conduct explicitly referred to in the instrument providing notice is sanctionable.

Schlaifer Nance & Co. v. Estate of Warhol, 194 F.3d 323, 334 (2d Cir. 1999).

"With regard to factual contentions, 'sanctions may not be imposed unless a particular allegation is utterly lacking in support' *O'Brien v. Alexander*, 101 F.3d 1479, 1489 (2d Cir. 1996) (interpreting the 1993 amendment to Rule 11(b)." *Storey, supra.*[1]

2. SUMMARY JUDGMENT AND RULE 11 LIABILITY CANNOT BE GROUNDED ON INFERENCES OR DOUBTS FAVORABLE TO PETITIONER.

In considering the motion for summary judgment, the courts below should have made all factual inferences in favor of the non-moving party Phonometrics. *Anderson v. Liberty*

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[1] The Federal Circuit here was mistaken in stating that the case against Respondents was filed in Florida (A-20) and that Eleventh Circuit law applies (A-13). In fact, the case against Respondents was filed in California in 1996, not 1997 (A-5; A-11), so Eleventh Circuit law would not apply. It was transferred to Florida for coordinated or consolidated pretrial proceedings, to be remanded to California for trial. For purposes of this Petition, there is no evidence of a conflict of laws between or among the Eleventh, Ninth or Second Circuits. The *Storey*, and *Schlaifer Nance* cases are the only ones found holding that it is abuse of discretion and a denial of due process to rely upon documents not identified in the Motion for Sanctions. The notice requirement was not considered by the Federal Circuit as to the two documents, so it is appropriate to find that an abuse of discretion resulted. These Second Circuit cases are well reasoned and correctly analyze Rule 11.

Lobby, Inc., 477 U.S. 242, 255 (1986). For purposes of Rule 11, doubts as to the factual predicate should be resolved in favor of Petitioner. Joseph puts it this way (page 124):

> **"In deciding a Rule 11 motion, the court resolves all doubts in favor of the presenter.**
>
> As a prophylactic measure against the use of hindsight and against the misuse of the Rule to 'kill an attorney's enthusiasm or creativity in pursuing factual or legal theories' (see Adv. Com. Note (1983) to Rule 11), the courts presume the validity--for Rule 11 purposes--of all litigation papers," citing *Eastway Constr. Corp. v. City of New York, supra.*

It is at least an inference that the argument made in the opposition to the motion for summary judgment, and in the appeal of this matter to the Federal Circuit, Petitioner submitted evidence that "in at least some of the defendants' hotels a combination of equipment exist that may display or at least have the capability to display on a monitor in a business office of the hotel the costs of calls in progress" (A-20). If that inference had been drawn in favor of Phonometrics in the motion for summary judgment, as it should have been, the grant of summary judgment would have been reversed by the Federal Circuit. Acknowledging the inference in the judgment that is the subject of this Petition shows that the litigation papers were valid and summary judgment was not proper. If the opposition to the summary judgment motion was valid in raising genuine issues of material fact, then there can be no Rule 11(b)(3) violation.

The only fact issue the Federal Circuit held to be dispositive was whether the display was "human-readable" and not "machine-readable" and the human had to be the

hotel guest, not an attendant at the calling telephone (A-18, note 4). The theory that the attendant at the hotel's "calling telephone" is a human does not "articulate[] a viable theory under which any hotel defendant infringes the '463 patent. In the absence of at least such a theory, we cannot see how we could fail to sustain the district court's decision" (A-20). If there were any doubt that the hotel telephone attendant viewing a monitor is reading a "human-readable" display, that doubt should have been resolved in favor of the presenter of the challenged paper, and the inference that such an attendant views call cost during the call should have defeated the motion for summary judgment. A jury should decide the fact issue of infringement, not appellate judges. A jury should decide whether an attendant at a monitor with the calling telephone is a human reading a display of call cost, not whether the "theory" is "viable" and properly "articulated" (*id.*).

The Federal Circuit stated in footnote 3 (A-17) that Petitioner is bound by "claim preclusion, issue preclusion, judicial estoppel, law of the case or the like" by the holding in *Choice Hotels* that the display must be "during the call." Petitioner does not challenge that holding. Rather, Petitioner challenges the holding that the display must be "to the caller" instead of to the calling telephone. It is a fact that the claim refers to "calling telephone," not "to the caller." If *stare decisis* has any meaning then *Intellicall* should be followed in stating that "to the caller" is not in the claim. Issue preclusion cannot alter that.

Claim preclusion does not apply to a prior holding of non-infringement unless the accused devices are shown to be identical as in the prior case. "With respect to patent litigation, we are unpersuaded that an 'infringement claim', for purposes of claim preclusion, embraces more than the specific devices before the court in the first suit." *Young*

Engineers v. U.S. Int'l Trade Comm., 721 F2d 1305 (Fed. Cir. 1983). "A device not previously before the court, and shown to differ from those structures previously litigated, requires determination on its own facts." *Del Mar Avionics v. Quinton Instruments, Inc.*, 836 F.2d 1320 (Fed. Cir. 1987).

3. THE CONSTITUONAL RIGHT TO TRIAL OF FACTS BY A JURY HAS BEEN VIOLATED.

This Petition reveals, even more starkly than the merits appeal in *Hyatt* (Petition No. 03-856) that the Federal Circuit cannot distinguish between fact and law. It is a fact that the patent claim (A-40) does *not* contain the words "to the caller" in relation to the "visual display" claimed. Instead, the claim is an apparatus claim that defines equipment cooperating with a "calling telephone," not a person. In fact, "calling telephone" appears five times in the claim (A-40 - 41) and the word "caller" never appears in the claim.

The Federal Circuit has vacillated on the question of whether "to the caller" is in the claim. First, in 1992, the court said that it was error on the part of the district court to insist that the display had to be "to the caller," though harmless in the circumstances under 28 U.S.C. §2111 (*Intellicall, Inc. v. Phonometrics, Inc.*, 952 F.2d 1384, n.1 (Fed Cir. 1992)). The Federal Circuit quoted footnote 1 of *Intellicall* at A-18, note 4. The footnote clearly states that it would be error to restrict the claim to "the caller." Note 4 also quotes the panel decision in *Phonometrics v. Westin* that turns the *Intellicall* note 1 on its head. *Westin* says that "the opposite may be true," and it was *not* error to restrict the claim to "to the caller." It is a fact that "to the caller" is not in the claim. It is error for the Federal Circuit to hold that an accused system without a display "to the caller" cannot infringe.

If the Federal Circuit has a "rule that prior decisions of a panel of the court is binding precedent on subsequent panels" (A-19), then the *Intellicall* decision that "to the caller" is not in the claim and it is error to restrict the claim to "to the caller" is binding precedent on the later *Northern Telecom* panel. In any event, whether the words are present in the claim is an issue of fact for the jury.

Later, in *Phonometrics, Inc. v. Northern Telecom, Inc.*, 133 F. 3d 1459,1465 (Fed. Cir. 1998) the Federal Circuit purported to write "the caller" into the visual display element of the claim: "the call cost register means . . . provides the caller with real time, accurate information about the cost of the call via digital display . . ." Never mind that this was the exact opposite of the observation in *Intellicall* that "to the caller" is not in the claim, because that observation was "merely dictum, and therefore has no issue preclusive effect for this appeal" (*id.* at 1464). The fact that "to the caller" is not in the claim makes no difference to a court intent on *deciding* cases rather than *reviewing* them for error. Because the fact that "to the caller" is not in the claim does not fit with the result desired, the Federal Circuit ignored the prior acknowledgement of the truth of the fact as "merely dictum." It decided the opposite of the fact and called it a matter of law. This is another example of the inability to distinguish fact from law, as discussed in Petition 03-856 in *Phonometrics, Inc. v. Hyatt, et al.*

"To the caller" is now in the claim, as a matter of law. It is now part of the invisible clothes of the Emperor (H.C. Andersen, *The Emperor's New Clothes*. The decision below makes "to the caller" the single essential feature of claim 1, so that "advocating" infringement of the claim is a violation of Rule 11. Petitioner pointed out to the Federal Circuit that the combination of (1) a Private Automatic Branch Exchange (PABX), that sends data to the computer regarding the

telephone number called, the time of day that the call begins, and the duration of the call; (2) a Property Management Computer, which is a general purpose computer programmed to manage the functions of a hotel for guest records; and (3) a call accounting device that has data for the cost of long distance calls based on the distance between the calling telephone of the hotel and the called party, infringes the patent claim (A-45).

The Federal Circuit was willing to admit, for the sake of argument, that the evidence shows that "in at least some of the defendants' hotels, a combination of equipment exists that may display or at least have the capability to display on a monitor or in a business office of the hotel the costs of calls in progress" (A-20). However, because the monitor is not in the hotel guest's room, the argument fails, because the apparatus has to be in the guest room, not at the "calling telephone" in the business office of the hotel. The claim certainly does not state that the apparatus has to be in the hotel guest room, as a matter of fact. It is only because the *Northern Telecom* case said that the apparatus had to "provide the caller" with information (A-8) that the apparatus was moved, by operation of law, from the business office of a hotel to the guest room of the hotel. Never mind that it makes no sense whatsoever to have the call cost register of the calling telephone in each guest's room instead of in the central location of the calling telephone. The Federal Circuit has decided the fact issue of where the apparatus must be located, and it is not for Petitioner to contend that deciding that fact issue instead of submitting it to a trier of fact is a violation of the Seventh Amendment. The Federal Circuit has never identified a fact issue in dispute and remanded the case to the district court for a determination of that fact.

Rather, the Federal Circuit *decides* the fact issues, based on its appellate omniscience.[2]

It is, apparently, a matter of policy that the Federal Circuit decides fact issues rather than remand a case to the district court for determining the facts either under the Seventh Amendment by a jury or by the district court under Fed. R. Civ. P. 52(a). As Circuit Judge Lourie put it in an address to the Patent Section of the District of Columbia Bar Association, "we hesitate to send a case back when it is plain to us what the result will be" 60 BNA Patent, Trademark and Copyright J. 147, 149 (2000). It is not deference to triers of fact to refuse to remand a case for a trier of fact to determine the facts under the Seventh Amendment.

This policy of deciding facts in the way the Federal Circuit wants to find them, rather than reviewing the fact findings of the district court in the first instance for error, has endured since the Federal Circuit was created. This Court had to exercise its supervisory role in *Cardinal Chemical Co.*, *supra*, when it reversed a district court decision without even mentioning Rule 52(a). In the present case, the Federal Circuit did not even acknowledge the existence of the Seventh Amendment requirement that a jury, not the Federal Circuit, should decide whether "a combination of equipment exists [in Respondents' hotels] that may display on a monitor or in the business office of the hotel the costs of calls in progress" does or does not infringe the patent claim (A-20).

The jury can decide, as the district court could decide in *Cardinal Chemical*, whether there was infringement. This case should be remanded for an explanation as to why the

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[2] See, C.A. Wright, *The Doubtful Omniscience of Appellate Judges*, 41 U. Minn. L. Rev. 751 (1957).

Seventh Amendment does not apply in this case, just as the Federal Circuit was called upon to explain why Rule 52(a) did not apply in *Cardinal Chemical*. The admission, even for the sake of argument, that a display may exist at the calling telephone of a hotel showing cost of calls in progress shows that summary judgment was not appropriate. Respondents failed to prove, to the satisfaction of the Federal Circuit, that there was no genuine issue of material fact for trial by jury.

Stating that the computer monitor is not in the guest room fails to prove that there is no genuine issue of material fact. If "to the caller" is a material fact, as the Federal Circuit seems to hold when it says (A-20) that Petitioner's "infringement contentions are baseless," then the jury must decide whether the computer monitor display must be in the hotel guest rooms or at the "calling telephone," as the claim states. It is, in any event, a fact-issue of where the apparatus must be. Infringement, *vel non*, is "a question of fact, to be submitted to a jury" *Winans v. Denmead*, 15 How. 330, 338 (1854); *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 384 (1996). Admitting that a computer monitor may display the information in Respondents' hotels, but concluding that Petitioner's "infringement contentions are baseless" because of the fact that the monitor is not in a guest room is denial of a Seventh Amendment right. Infringement contentions are facts, not law.

The Federal Circuit held that the complaint in this case was sufficient to state a claim upon which relief can be granted in 2000 (A-21, note 5). The district court had held that *Intellicall* and *Northern Telecom* required that specific facts must be pleaded in the complaint. Because the essential facts were not in the complaints against Respondents and others, the district court dismissed all cases *sua sponte*. The Federal Circuit reversed all of the cases in

two decisions: *Phonometrics v. ITT Sheraton*, 2000 WL 286624 (Fed. Cir. 2000) (unpublished) and *Phonometrics v. Hospitality Franchise Systems*, 203 F.3d 790 (Fed. Cir. 2000). Thus, the complaint against Respondents that was filed in 1996[3] was found to be sufficient, as a matter of law, to state a claim upon which relief can be granted in 2000.

By 2003, however, the complaints were transformed from procedurally adequate into documents that contained "infringement contentions [that] are baseless" (A-20) even though not a word of the complaints was changed in the three years.

CONCLUSION

For these reasons, the Petition for Writ of Certiorari should be granted to exercise the Court's supervisory authority over the Federal Circuit.

Dated: February 18, 2004 Respectfully submitted,

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[3] It makes no difference to the outcome of this Petition, but for the record, the cases against *Economy Inns*, *Clubhouse*, *AMFAC*, *Meditrust*, and *Marriott*, filed in 1994, have all been settled, and these defendants are not Respondents to this Petition. Respondents were all sued in 1996.

APPENDIX A

United States Court of Appeals for the Federal Circuit

02-1502, -1503, -1504, -1505

PHONOMETRICS, INC.,

Plaintiff,

and

JOHN P. SUTTON,

Liable Party-Appellant,

v.

ECONOMY INNS OF AMERICA, CLUBHOUSE INNS OF AMERICA, AMFAC RESORTS, WYNDHAM HOTEL CO., MEDITRUST CORP. (formerly known as La Quinta Inns), MARRIOTT INTERNATIONAL, INC., and HOST MARRIOTT CORPORATION,

Defendants,

and
INTERSTATE HOTELS, LLC,
and
PARK LANE HOTELS INTERNATIONAL,
and
CENDANT CORPORATION (formerly known as Hospitality Franchise Systems),
and

FOUR SEASONS HOTELS LIMITED,
and
GROSVENOR HOTEL and FAIRMONT HOTEL MANAGEMENT,
and
RHI HOTELS, INC.,

Defendants-Appellees.

John P. Sutton, of San Francisco, California, pro se.

William E. Davis, Buchanan Ingersoll, of Miami, Florida, argued for defendants-appellees. Of counsel was Lawrence B. Lambert.

Gary L. Benton, Coudert Brothers LLP, of San Francisco, California, for defendant-appellee RHI Hotels. Of counsel was Kristin A. Ring.

Nathan Lane III, Squire, Sanders & Dempsey L.L.P., of San Francisco, California, for defendant-appellee Interstate Hotels, LLC.

Stephen D. Kaus, Cooper, White & Cooper LLP, of San Francisco, California, for defendant-appellee Park Lane Hotels International.

Stanley Young, Heller Ehrman White & McAuliffe LLP, of Menlo Park, California, for defendant-appellee Four Seasons Hotels Limited.

Jonathan R. Bass, Coblentz, Patch, of San Francisco, California, for defendants-appellees Fairmont Hotel Management and Grosvenor Hotels Group. Of counsel were Howard A. Slavitt, and Jeffrey G. Knowles.

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United States Court of Appeals for the Federal Circuit

02-1502, -1503, -1504, -1505

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ECONOMY INNS OF AMERICA, CLUBHOUSE INNS OF AMERICA, AMFAC RESORTS, WYNDHAM HOTEL CO., MEDITRUST CORP. (formerly known as La Quinta Inns), MARRIOTT INTERNATIONAL, INC., and HOST MARRIOTT CORPORATION,

Defendants,

and
INTERSTATE HOTELS, LLC,
and
PARK LANE HOTELS INTERNATIONAL,
and
CENDANT CORPORATION (formerly known as Hospitality Franchise Systems),
and

FOUR SEASONS HOTELS LIMITED,
and
GROSVENOR HOTEL and FAIRMONT HOTEL MANAGEMENT,
and
RHI HOTELS, INC.,

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Stanley Young, Heller Ehrman White & McAuliffe LLP, of Menlo Park, California, for defendant-appellee Four Seasons Hotels Limited.

Jonathan R. Bass, Coblentz, Patch, of San Francisco, California, for defendants-appellees Fairmont Hotel Management and Grosvenor Hotels Group. Of counsel were Howard A. Slavitt, and Jeffrey G. Knowles.

Appealed from: United States District Court for the Southern District of Florida

Senior Judge Kenneth L. Ryskamp

United States Court of Appeals for the Federal Circuit

02-1502, -1503, -1504, -1505

PHONOMETRICS, INC.,

Plaintiff,

and

JOHN P. SUTTON,

Liable Party-Appellant,

v.

ECONOMY INNS OF AMERICA, CLUBHOUSE INNS OF AMERICA, AMFAC RESORTS, WYNDHAM HOTEL CO., MEDITRUST CORP. (formerly known as La Quinta Inns), MARRIOTT INTERNATIONAL, INC., and HOST MARRIOTT CORPORATION,

Defendants,

and

INTERSTATE HOTELS, LLC,
and
PARK LANE HOTELS INTERNATIONAL,
and
CENDANT CORPORATION (formerly known as Hospitality Franchise Systems),
and
FOUR SEASONS HOTELS LIMITED,
and

GROSVENOR HOTEL and FAIRMONT HOTEL MANAGEMENT,
and
RHI HOTELS, INC.,

Defend nts-Appellees.

DECIDED: November 21, 2003

Before NEWMAN, MICHEL, and RADER, Circuit Judges.

Opinion for the court filed by Circuit Judge MICHEL. Dissenting opinion filed by Circuit Judge NEWMAN.

MICHEL, Circuit Judge.

John P. Sutton, as Liable Party-Appellant, appeals from the order of the United States District Court for the Southern District of Florida granting-in-part and denying-in-part the joint motion of eighteen defendants for sanctions under Rule 11 of the Federal Rules of Civil Procedure. Phonometrics, Inc. v. Marriott Int'l, Inc., Nos. 94-6533-, 94-6689-, 94-6691-, 94-7106-, 94-7127-and 97-8126-CIV-RYSKAMP (S.D. Fla. Apr. 12, 2002) ("Apr. 12 Order"). Because the district court did not abuse its discretion in deciding to grant the motion as to certain of the defendants and to award them attorney fees associated with bringing the motion for sanctions, we affirm.

BACKGROUND

The defendants in the actions giving rise to the present appeals are hotel companies sued in 1994 and 1997

by Phonometrics, Inc. In each of the underlying actions, Phonometrics alleges infringement of U.S. Patent No. 3,769,463 ("the '463 patent"), issued on October 30, 1973 to Philip G. Graham and Lawrence Reich. The '463 patent relates to an "Electronic Long Distance Telephone Call Computer and Recorder." Phonometrics contends that the defendants' use of internal telephone equipment to calculate, display, and record the cost of long distance telephone calls originating in their hotels infringes the '463 patent.

Before it brought its actions against the hotel defendants, Phonometrics had charged various manufacturers and sellers of telephone equipment with infringement of the '463 patent, including Intellicall, Inc. and Northern Telecom, Inc. See, e.g., Intellicall, Inc. v. Phonometrics, Inc., 952 F.2d 1384 (Fed. Cir. 1992); Phonometrics, Inc. v. Northern Telecom, Inc., 133 F.3d 1459 (Fed. Cir. 1998). The claim limitation at issue in Intellicall, Northern Telecom, and in many, if not all, of the hotel cases is the "call cost register means, including a digital display, for providing a substantially instantaneous display of cumulative call cost in dollars and cents."[1] In Intellicall, we

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[1] Claim 1 of the '463 patent, the only independent claim, reads as follows:

> An electronic solid state long-distance telephone call cost computer apparatus for computing and recording the cost of each long-distance telephone call initiated from a given calling telephone, actuated by the lifting and replacement of the calling telephone to operate switch means coupled to the calling telephone, and further actuated by a call-completion signal generated in the telephone system when a called party answers at a

called telephone, the computer apparatus comprising:

call timing means for timing the duration of each completed call;

settable charge selector means for storing initial fixed charge data for a given predetermined initial call interval and incremental charge data for subsequent additional predetermined incremental call intervals;

call cost register means, including a digital display, for providing a substantially instantaneous display of cumulative call cost in dollars and cents; and

computer circuit means, coupled to said switch, to said timing means, to said charge selector means, and to said call cost register means, for automatically recording, in the call cost register means, the cost of each long-distance call made from the calling telephone, said computer circuit means comprising:

reset means for resetting said timing means and said call cost register means immediately upon occurrence of said call-completion signal;

initial cost transfer means initiating operation of said call timing means and for applying the complete initial fixed charge data from said charge selector means to said call cost register means substantially instantaneously upon resetting of said call timing means and said call cost register; patent, col. 8, II. 24-68 to col. 9, II. 1-8 (emphasis added).

incremental cost transfer means for applying the complete incremental charge data from said charge selector means to said call cost

affirmed a grant of summary judgment of noninfringement of the '463 patent, holding that the term "digital display" does not include machine-readable devices. Intellicall, 952 F.2d at 1388. Then, in Northern Telecom, we affirmed a summary judgment of noninfringement based on a construction of the "substantially instantaneous" limitation as requiring that the call cost register means provide the caller with "accurate cost information while the call progresses as well as total cost information once the call has ended." Northern Telecom, 133 F.3d at 1467.

Shortly after we issued our opinion in Northern Telecom, we affirmed a grant of summary judgment of noninfringement to a telephone switching system manufacturer, in part on the ground that the manufacturer "introduced evidence that the accused peripheral systems did not and could not provide cost information about calls while the calls were in progress." Phonometrics, Inc. v. Siemens Info. Sys., Inc., 135 F.3d 777, 1998 WL 30488, at *3 (Fed.

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register means substantially instantaneously upon completion of timing out the initial call interval by said call timing means and for again applying the complete incremental charge data from said charge selector means to said call cost register means substantially instantaneously upon completion of timing out of each incremental call interval following said initial call interval;

and termination means for interrupting operation of said computer apparatus, with the cumulative call cost held in and displayed by said call cost register means, upon operation of said switch by replacement of the calling telephone.

Cir. 1998) (Table). We similarly affirmed a grant of summary judgment of noninfringement to a switching equipment seller because the equipment was "unable to calculate call cost until after the call ends." Phonometrics, Inc. v. Tadiran Elec. Indus., Inc., 135 F.3d 777, 1998 WL 33855, at *1 (Fed. Cir. 1998) (Table). To this extent, we based both decisions on the claim construction stated in Northern Telecom. Siemans, 1998 WL 30488, at *2; Tadiran, 1998 WL 33855, at *1.

We had our first opportunity to review a decision on the merits of a Phonometrics infringement claim against a hotel defendant in Phonometrics, Inc. v. Choice Hotels International, Inc., 21 Fed. Appx. 910 (Fed. Cir. 2001). There, we affirmed the district court's grant of summary judgment of noninfringement based on the claim construction stated in Northern Telecom and the fact that "no evidence showed that Choice Hotels' accused device . . . provided cost information during a call . . . ." Choice Hotels, 21 Fed. Appx. at 911 (emphasis in original). Rejecting as "baffling" Phonometrics' contention that our earlier construction of the "substantially instantaneous" limitation was "pure dictum[,]" we noted that "[u]nder principles of stare decisis, . . . future panels like the present panel will follow the claim construction set forth by our court in" Intellicall and Northern Telecom, and specifically cautioned Phonometrics against further litigation of that issue in this court. Id. at 911-12 ("[W]e would not welcome further appeals seeking to re-litigate the meaning of that phrase. Indeed, further appeal on that issue would appear to be subject to possible sanctions as frivolously filed under Fed. R. App. P. 38.").[2] Mr. Sutton, counsel for Phonometrics in

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[2] Although not legally relevant to the issue here, we note that Phonometrics' earlier appeal to this court of the grant of summary judgment of noninfringement in

the present action, also represented Phonometrics in each of Northern Telecom, Siemens, Tadiran, and Choice Hotels.

Westin's favor in the face of this warning resulted in our own imposition of sanctions against Phonometrics and its counsel. See Phonometrics, Inc. v. Westin Hotel Co., 319 F.3d 1328, 1333-34 (Fed. Cir. 2003) ("True to our warning and pursuant to Federal Rule of Appellate Procedure 38, we therefore sanction Phonometrics and order payment of $3000.00 to Westin Hotels, who has had to respond to arguments that defy any reasonable reading of the relevant cases. Because we know not where the blame for Phonometrics' litigation tactics lies, we direct the sanction to Phonometrics and its attorney, Mr. Sutton, jointly and severally.").

The present actions were instituted in 1994 and 1997, i.e., after we decided Intellicall but before our review of Phonometrics' appeal in Northern Telecom. The district court twice stayed the present actions, pending our decisions in Northern Telecom and Choice Hotels, respectively. After our opinion in Choice Hotels issued, Phonometrics, responding to the court's request, told the district court it would continue to pursue these cases. Shortly thereafter, fourteen of the defendants served Phonometrics with a "safe-harbor" letter demanding dismissal of Phonometrics' infringement actions and a copy of their joint (unfiled) motion for Rule 11 sanctions. In response, Mr. Sutton, as counsel for Phonometrics, refused to dismiss the actions, stating that our decision in Choice Hotels was "mistaken." After observing the 21-day waiting period required by Rule 11(c)(1)(A), the defendants who made the Rule 11 demand, joined by four other hotel defendants, filed their joint motion for Rule 11 sanctions in the form of dismissal of Phonometrics' claims and attorney fees and costs associated with bringing the Rule 11 motion. Phonometrics filed oppositions to the sanctions motion and the defendants' subsequent motions for summary judgment of noninfringement.

The district court granted the Rule 11 motion of fourteen of the eighteen joining defendants, denying it as to those who were not parties to the safe-harbor letter and draft motion served on Phonometrics. After tracing the above-described history of the Phonometrics cases and noting that a litigant's Rule 11 obligations include a duty to refrain from continuing to advocate a position once it becomes untenable, the court held that Phonometrics' continued pursuit of its claims after our opinion issued in Northern Telecom violated that duty. It denied the defendants' request for dismissal as moot in light of its grants of summary judgment in their favor, but imposed liability for the defendants' attorney fees

and costs associated with bringing the sanctions motion on Mr. Sutton. Bills were then submitted, and the court subsequently awarded the defendants attorney fees totaling $13,565.63. Phonometrics, Inc. v. Marriott Int'l, Inc., Nos. 94-6533-, 94-6689-, 94-6691-, 94-7106-, 94-7127-, and 97-8126-CIV-RYSKAMP (S.D. Fla. June 10, 2002) ("June 10 Order").

Mr. Sutton timely appealed from the district court's orders imposing liability for and awarding Rule 11 sanctions in the form of attorney fees. We have jurisdiction pursuant to 28 U.S.C. § 1295(a)(1).

DISCUSSION

Pursuant to Rule 11 of the Federal Rules of Civil Procedure, an attorney who

> present[s] to the court (whether by signing, filing, submitting, or later advocating) a pleading, written motion, or other paper, . . . is certifying that to the best of the person's knowledge, information, and belief, formed after an inquiry reasonable under the circumstances, . . . (2) the claims, defenses, and other legal contentions therein are warranted by existing law or by a nonfrivolous argument for the extension, modification, or reversal of existing law or the establishment of new law; [and] (3) the allegations and other factual contentions have evidentiary support or, if specifically so identified, are likely to have evidentiary support after a reasonable opportunity for further investigation or discovery . . . .

Fed. R. Civ. P. 11(b)(2)-(3). A court may impose sanctions on an attorney for a violation of these requirements. Fed. R. Civ. P. 11(c).

A district court's award of sanctions under Rule 11 is reviewed for an abuse of discretion. Cooter & Gell v. Hartmarx Corp., 496 U.S. 384, 405 (1990). "The abuse of discretion standard applies to both the decision to sanction, and the amount of the sanction." View Eng'g, Inc. v. Robotic Vision Sys., Inc., 208 F.3d 981, 984 (Fed. Cir. 2000). We apply regional circuit law when reviewing the imposition of Rule 11 sanctions. Antonious v. Spalding & Evenflo Co., 275 F.3d 1066, 1072 (Fed. Cir. 2002). In this case, Eleventh Circuit law applies.

I.

A.

Mr. Sutton challenges the imposition of sanctions on the ground that no "pleading, written motion, or other paper" was presented that failed to comply with the requirements of Rule 11(b). Similarly, he argues that "statements in oral argument cannot be the basis for sanctions," referring to the district court's discussion of Mr. Sutton's statement during a February 1997 hearing that "none of these equipments that these defendants have . . . has a display to the caller during the call in progress." Mr. Sutton's contentions are unavailing for several reasons.

First, Rule 11 expressly provides that an attorney's certifications that he has made "an inquiry reasonable under the circumstances," that his legal contentions are warranted by law (or a nonfrivolous argument for a change in the law), and that his factual allegations have (or are likely to have) evidentiary support attach to every "presenting" of a

"pleading, written motion, or other paper," "whether by signing, filing, submitting, or later advocating" such papers. Fed. R. Civ. P. 11(b) (emphasis added). Thus oral statements that "later advocat[e]" untenable contentions made in previously-filed papers are sanctionable under Rule 11. See Fed. R. Civ. P. 11 advisory committee's note ("[A] litigant's obligations with respect to the contents of . . . papers are not measured solely as of the time they are filed with or submitted to the court, but include reaffirming to the court and advocating positions contained in those [papers] after learning that they cease to have any merit."); Battles v. City of Ft. Myers, 127 F.3d 1298, 1300 (11th Cir. 1997) (noting that the "1993 amendment to Rule 11 emphasizes an attorney's continuing obligations to make inquiries, and thus the rule allows sanctions when an attorney continues 'insisting upon a position after it is no longer tenable'" (quoting Fed. R. Civ. P. 11 advisory committee's note)).

In any event, the district court specifically declined to base its imposition of sanctions on any statements made during the February 1997 hearing. The district court noted that "[Phonometrics] argued in that hearing that . . . a display of the cost of the call to the caller during the call was not required for infringement of the '463 patent." However, according to the court, "[a]t that [pre-Northern Telecom] point in the litigation, [Phonometrics'] argument was not completely baseless because there was no precedent from the Federal Circuit requiring such display to the caller to find infringement of the '463 patent." Apr. 12 Order, slip op. at 5-6 (citing the subsequent clarification (in 1998) in Northern Telecom that the claim construction approved in Intellicall related only to the "digital [human readable] display"). Thus the district court expressly considered and rejected the notion of sanctions based on the February 1997 oral statement.

Instead, the court relied on Phonometrics' continued pursuit of its infringement claims after Northern Telecom issued. In particular, the court stated:

> From the moment the Federal Circuit issued its opinion in Northern Telecom, . . . [Phonometrics] was on notice that the Federal Circuit's interpretation of the '463 patent requires a real-time visual display to the caller which tracks the cost of a long distance call while the call is in progress. When [Phonometrics] continued to pursue his claim after Northern Telecom, [Mr. Sutton] was advocating legal theories which he knew were no longer tenable. Such continued pursuit of frivolous claims is precisely what Rule 11 is meant to deter.

Id. (emphasis added). When Mr. Sutton's conduct is examined in the context of the history of the Phonometrics cases and the procedural record of the present actions, we think it clear that no abuse of discretion occurred.

As noted above, the present actions were stayed pending the resolution in Northern Telecom, and then again pending the resolution in Choice Hotels. Thereafter, once Phonometrics indicated that it would continue to pursue its claims in these actions, the fourteen defendants awarded attorney fees pursuant to Rule 11 served Phonometrics with a dismissal demand and copy of the Rule 11 motion they later filed with the court. At this point, the issue of the viability of Phonometrics' claims was placed in sharp relief for Phonometrics and its counsel. Nevertheless, it persisted in its position; specifically -- at that juncture -- by filing with the court its opposition to the Rule 11 motion. Subsequently, at least as to some of the defendants awarded fees,

Phonometrics filed yet another paper advocating its infringement contentions -- its opposition to the defendants' joint motion for summary judgment. Thus the district court did not impose sanctions for the mere failure to withdraw non-meritorious claims. See Fed. R. Civ. P. 11 advisory committee's note ("[Rule 11(b)] does not require a formal amendment to pleadings for which evidentiary support is not obtained, but rather calls upon a litigant not thereafter to advocate such claims or defenses."). In contrast, the district court granted Rule 11 sanctions only after (1) Northern Telecom was decided (1998), (2) Choice Hotels was decided (2001), (3) Phonometrics refused to withdraw its claims in the face of the Rule 11 safe-harbor letter (2001), (4) Phonometrics opposed the Rule 11 motion (2002), and (5) Phonometrics opposed the defendants' motions for summary judgment (2002). Given this sequence of events, we discern no abuse of the district court's discretion. See Turner v. Sungard Bus. Sys., Inc., 91 F.3d 1418, 1422 (11th Cir. 1996) (upholding a decision to impose Rule 11 sanctions on counsel who filed only a notice of appearance, but failed to dismiss the action after he "had to know that the case was without a factual basis . . . thereby forcing [the defendant] (and the court) to expend time and money on a summary judgment motion").

B.

On appeal, Mr. Sutton argues that sanctions are inappropriate because (1) the claim construction stated in Northern Telecom is incorrect and (2) evidentiary support exists for Phonometrics' assertions of infringement. Yet it was the continued maintenance of these very positions that gave rise to the sanctions, and both are completely without merit.

As we noted in Choice Hotels, "we held in Northern Telecom that the limitation 'substantially instantaneous' meant the phone display device claimed by the '463 patent must give callers information about the cost of their long-distance call both during the call and after the call had ended[,]" and in Northern Telecom "[w]e stated this holding no less than four times." Choice Hotels, 21 Fed. Appx. at 911 (citations omitted) (emphasis in original). However sincere Phonometrics and Mr. Sutton may be in their belief that the construction of the limitation at issue stated in Northern Telecom, and reiterated and followed "[u]nder principles of stare decisis" in Choice Hotels[3] (Choice Hotels,

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[3] Contrary to Mr. Sutton's contention, our decision in Choice Hotels binds Phonometrics under the exception in Federal Circuit Rule 47 for collateral estoppel. Fed. Cir. R. 47.6(b) ("This rule does not preclude assertion of claim preclusion, issue preclusion, judicial estoppel, law of the case, or the like based on a decision of the court designated as nonprecedential."); see also Burke, Inc. v. Bruno Indep. Living Aids, Inc., 183 F.3d 1334, 1337-38 (Fed. Cir. 1999) (applying the Rule 47.6(b) exception in favor of a party where the case at hand "concern[ed] the identical issue of law decided [in that party's favor] by the court" in an earlier appeal, namely claim construction). The district court's reliance on Choice Hotels is limited to noting that Choice Hotels made it "absolutely clear that the claim construction of the '463 patent articulated in Northern Telecom applied to all cases construing the '463 patent." Apr. 12 Order, slip op. at 6. Nonetheless, we note that the substantive issue underlying the district court's decision to sanction is the same as that decided (adversely to Phonometrics) in Choice Hotels -- namely, whether claim 1 of the '463 patent can be infringed in the absence of any "record evidence showing that the accused device . . . provides cost information [to the caller] during a call."

21 Fed. Appx. at 912) and by the district court in case after case brought by Phonometrics, is incorrect, their position is simply without legal merit.[4] See Newell Cos. v. Kenney

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Choice Hotels, 21 Fed. Appx. at 911. Accordingly, Choice Hotels binds Phonometrics (and its counsel).

[4] Phonometrics incorrectly characterizes the claim construction stated in Northern Telecom as "diametrically opposite" that articulated in Intellicall. As noted above, the issue in Intellicall was whether the term "digital display" could include machine-readable devices. Intellicall, Inc. v. Phonometrics, Inc., 952 F.2d 1384, 1388 (Fed. Cir. 1992). We noted there the limited scope of our decision:

> In some instances, the district court stated that the display was "to the caller." Appellant asserts that the court thereby added a limitation to the claim. If this was an error, and we are not persuaded that the court intended to so restrict the claim when the restriction was not necessary to its discussion, the error would be harmless. The claim does not, in any event, encompass machine readable information.

Id. at n.1. As we have previously explained, the subsequent holding (that in addition to being human- (not machine-) readable, the "digital display" must, inter alia, be "to the caller") in Northern Telecom does not contradict Intellicall footnote 1:

> [W]e perceive no such contradiction. Phonometrics' contention that there is a conflict is premised upon its reading of footnote 1 in Intellicall as pronouncing that it

Mfg. Co., 864 F.2d 757, 765 (Fed. Cir. 1988) ("This court has adopted the rule that prior decisions of a panel of the court are binding precedent on subsequent panels unless and until overturned in banc."). Apparently, the district court is now as "baffl[ed]" as we were (see Choice Hotels, 21 Fed. Appx. at 911) at their insistence, in the face of settled precedent and the absence of availing evidence, in pursuing it.

> would be erroneous to include a "to the caller" limitation in the construction of the phrase "digital display." We disagree with that reading. Footnote 1 clearly does not state that such a construction would be erroneous. Phonometrics has apparently overlooked the word "if" and the final sentence in footnote 1, which read, "If this was an error, . . . the error would be harmless. The claim in any event does not encompass machine readable information." Rather than suggesting that "to the caller" should not be part of the claim construction, as Phonometrics contends, footnote 1 actually indicates that the opposite may be true, as the opinion clearly holds that the display must be human readable--not merely machine readable. Phonometrics' creative reading of the cases is thus wholly without merit. Moreover, even if the Intellicall panel had believed that the claim did not include a "to the caller" limitation, any expression of that belief was, as the Northern Telecom opinion states, dictum, as it was not essential to the holding in that case.

Phonometrics, Inc. v. Westin Hotel Co., 319 F.3d 1328, 1332 (Fed. Cir. 2003) (citation omitted) (emphasis in original).

As for the evidence, Mr. Sutton argues that, in at least some of the defendants' hotels, a combination of equipment exists that may display or at least have the capability to display on a monitor in a business office of the hotel the costs of calls in progress. Even assuming he is correct about the equipment some or all of the defendants possess, his infringement contentions are baseless. In Northern Telecom, we made clear that the display of the mounting call costs must be human-, not machine-, readable, that it must be displayed in an updated fashion on a substantially continuous basis, and that it must be to the caller. Northern Telecom, 133 F.3d at 1464-65. Mr. Sutton does not even argue that the monitor, if it exists, displays anything to the caller. In fact, by arguing, in this regard, only that "Intellicall is binding precedent that 'to the caller' is not in claim 1[,]" he effectively admits that the alleged monitor does not. Thus the fact that the defendant in Northern Telecom was not a hotel company and sold different products than those accused here is irrelevant. Simply put, Mr. Sutton has never even articulated a viable theory under which any hotel defendant infringes the '463 patent. In the absence of at least such a theory, we cannot see how we could fail to sustain the district court's decision, particularly on deferential review.

C.

Finally, it is appropriate to consider the propriety of the district court's decision in light of the fact that each of the above-described actions, with the exception of Intellicall's action for declaratory judgment against Phonometrics (finalized in 1992), was filed in the same court and assigned to the same judge, and that Mr. Sutton served as counsel for Phonometrics in each of Phonometrics' appeals (other than that in Intellicall) to this court. The district court and Mr. Sutton are both very familiar with the

history of Phonometrics' attempts to enforce the '463 patent. At least since Northern Telecom, each decision on the merits of Phonometrics' infringement claims in each action, whether involving a hotel defendant or not, consistently applied and was resolved by the Northern Telecom claim construction.[5] Each such decision conveyed the same message: in the absence of evidence that the accused product "(1) . . . provides the caller with real time, accurate information about the cost of the call via [visual] digital display as the long distance charges accrue during the call; and (2) . . . reflects the total cost of the call via the same digital display after the call has been terminated[,]" there is no infringement of claim 1 of the '463 patent. Northern Telecom, 133 F.3d at 1465 (emphasis in original). And each presented Phonometrics and its counsel not merely the opportunity, but the obligation, to reconsider the viability of Phonometrics' claims in light of the evidence, and to refrain from further prosecution. Phonometrics never chose the latter course, even when that opportunity was specifically presented (after our opinion issued in Choice Hotels) by (1) the district court's inquiry as to Phonometrics' intention to continue its lawsuit, (2) the Rule 11 safe harbor letter, (3) the

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[5] Our previous dispositions in Phonometrics' favor, noted by the dissent, were not on the merits. See, e.g., Phonometrics, Inc. v. ITT Sheraton Corp., 232 F.3d 914, 2000 WL 576492, at *1 (Fed. Cir. 2000) ("Sheraton II") (vacating an award of attorney fees granted pursuant to 35 U.S.C. § 285 based on our reversal (in Phonometrics, Inc. v. ITT Sheraton Corp., 2000 WL 286624, at *1 (Fed. Cir. 2000) ("Sheraton I")) of the underlying dismissal of Phonometrics' claim because the district court had improperly required specific fact pleading); Phonometrics, Inc. v. Hospitality Franchise Sys., Inc., 203 F.3d 790, 794 (Fed. Cir. 2000) (reversing dismissal pursuant to Fed. R. Civ. P. 12(b)(6) for failure to specifically plead).

Rule 11 motion, and (4) the joint motion for summary judgment. We cannot regard as an abuse of discretion the district court's decision, made with the benefit of the history of all of Phonometrics' efforts to enforce the '463 patent, to award the fees incurred in bringing the Rule 11 motion against counsel who had the same benefit.[6]

Accordingly, there was ample basis for the district court's decision to impose sanctions in this case. In view of all of the foregoing, and especially given the highly deferential abuse-of-discretion standard of review, we uphold the district court's determination.

II.

We further find no abuse of discretion in the district court's rejection of Mr. Sutton's challenge to the Rule 11 motion as untimely. Although the court determined that Phonometrics' continued prosecution of its claims after Northern Telecom was frivolous, it held that the defendants' decision to wait until after our opinion issued in Choice Hotels was "reasonable in light of (1) the fact that

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[6] We, of course, review the district court's decision. Thus, the issue is not whether we would award sanctions, but whether, applying the appropriate, deferential review standard, we must sustain the district court's decision. Although disagreeing with our decision in this regard, nowhere does the dissent state how the district court's decision to award fees is "based on clearly erroneous findings of fact, . . . based on erroneous interpretations of the law, or is clearly unreasonable, arbitrary or fanciful." See Cybor Corp. v. FAS Techs., Inc., 138 F.3d 1448, 1460 (Fed. Cir. 1998) (en banc) (describing the circumstances under which an abuse of discretion may be found).

Northern Telecom [sic] did not specifically involve a hotel and (2) [the district court's] decision to stay all Phonometrics cases pending the appeal of Choice Hotels." Apr. 12 Order, slip op. at 6. The district court further stated that Choice Hotels made it "absolutely clear that the claim construction of the '463 patent articulated in Northern Telecom applied to all cases construing the '463 patent" and that Phonometrics' "refusal to dismiss its claims after Choice Hotels was simply an egregious violation of Rule 11." Id. Given the district court's broad discretion in deciding whether to impose sanctions under Rule 11, we discern no abuse. We note in this regard that the award was limited to the attorney fees expended in connection with the Rule 11 motion brought after Choice Hotels was decided in 2001. No fees awarded cover the period between Northern Telecom in 1998 and Choice Hotels in 2001.

III.

To the extent Mr. Sutton contends that the district court's imposition of sanctions on him (as opposed to the party-plaintiff, Phonometrics) was improper, we reject that contention. The decision to impose sanctions on counsel, like the decision to impose sanctions at all and the amount of any sanction, are committed to the district court's discretion. See Cooter & Gell, 496 U.S. at 405 ("[A]n appellate court should apply an abuse-of-discretion standard in reviewing all aspects of a district court's Rule 11 determination."). According to the drafters of the 1993 revision to Rule 11:

> The sanction should be imposed on the persons -- whether attorneys, law firms, or parties -- who have violated the rule or who may be determined to be responsible for the violation. The person signing, filing, submitting, or advocating a document has a

> nondelegable responsibility to the court, and in most situations is the person to be sanctioned for a violation.

Fed. R. Civ. P. 11 advisory committee's note. Here, the district court specifically determined that "[s]uch sanctions are to be levied against [Phonometrics'] counsel, who refused to dismiss the claims and who continued to advocate clearly untenable positions before this Court." Apr. 12 Order, slip op. at 7. Given our limited authority to reverse discretionary decisions, and especially given the district court's specific determination that Mr. Sutton was responsible for the Rule 11 violation, we cannot properly disturb its decision.

We note also that Mr. Sutton is a registered patent attorney having extensive practice experience, including district court infringement litigation. The viability of Phonometrics' claims against the defendants turns on the significance of legal precedent and the application of a patent claim construction made in 1998 and reconfirmed in 2001 to accused products. In light of these facts, the district court's allocation of responsibility for the violation was appropriate.

IV.

Likewise, we discern no abuse of discretion in the district court's determination of the amount of fees awarded as a sanction. Mr. Sutton challenges the size of the award in two respects. First, he questions the district court's acceptance of "reconstructed" bills submitted by one defendant, Cendant Corp., that include entries redacted to exclude work done on tasks unrelated to the Rule 11 motion but that, to his eyes, appear to bear the original (unredacted) time amounts and charges. The district court specifically considered Mr. Sutton's argument and regarded as

"sufficient" Cendant's explanation that "it considered the redactions when listing the amount of time expended on the motion for sanctions." June 10 Order, slip op. at 7 (noting "if a time entry includes both redacted work and work expended on the motion for sanctions, [Cendant] only seeks an award for the hours actually expended on the motion for sanctions"). Mr. Sutton asserts that the "type font" for the time and dollar amounts in the bills Cendant submitted "appear[s]" to be the pre-redaction font. However even if we agreed, we could not substitute our assessment of the credibility of Cendant's supporting documentation for that of the district court.

Second, Mr. Sutton challenges the portion of the total sanctions award made to the six defendants who did not agree to settle the present litigation "since it was for work performed by counsel for the settling defendants, not the remaining defendants." It is undisputed, however, that the challenged portion represents the amount the six non-settling defendants contributed to the preparation (by the attorneys for the settling defendants) of the Rule 11 motion, and that the district court calculated the award to the settling defendants by deducting the challenged portion from the fees incurred in preparing the motion. Therefore Mr. Sutton's contentions are unfounded.

CONCLUSION

Because the district court did not abuse its discretion in imposing Rule 11 sanctions on counsel for Phonometrics in the amount awarded, we

AFFIRM.

United States Court of Appeals for the Federal Circuit

02-1502, -1503, -1504, -1505

PHONOMETRICS, INC.,

Plaintiff,

and

JOHN P. SUTTON,

Liable Party-Appellant,

v.

ECONOMY INNS OF AMERICA, CLUBHOUSE INNS OF AMERICA,AMFAC RESORTS, WYNDHAM HOTEL, CO., MEDITRUST CORP. (formerly known as La Quinta Inns), MARRIOTT INTERNATIONAL, INC., and HOST MARRIOTT CORPORATION,

Defendants,

and

INTERSTATE HOTELS, LLC,
and
PARK LANE HOTELS INTERNATIONAL,
and
CENDANT CORPORATION
(formerly known as Hospitality Franchise Systems),
and
FOUR SEASONS HOTELS LIMITED,

and
GROSVENOR HOTEL and FAIRMONT HOTEL MANAGEMENT,
and
RHI HOTELS, INC.,

Defendants-Appellees.

NEWMAN, Circuit Judge, dissenting.

It is now clear that Phonometrics and its counsel must recognize that the infringement action cannot succeed against a hotel that does not provide real-time display of cumulative telephone charges to the user. However, this critical fact was not manifest until after this court's unpublished decision in Phonometrics, Inc. v. Choice Hotels Int'l, Inc., 21 Fed. Appx. 910, 2001 WL 1217219 (Fed. Cir. 2001). Choice Hotels is a nonprecedential decision and, although it binds the parties, there is a leap from that uncitable ruling to the award of Rule 11 sanctions for declining to withdraw other litigation against other parties whose infringement status was still being explored.

My colleagues on this panel rely on earlier decisions raising different, albeit related, issues of infringement, specifically, Intellicall, Inc. v. Phonometrics, Inc., 952 F.2d 1384 (Fed. Cir. 1992), and Phonometrics, Inc. v. Northern Telecom, Inc., 133 F.3d 1459 (Fed. Cir. 1998). In order to rely on these decisions to support today's sanctions, they have been reinterpreted to have a meaning they did not have when they were decided. Thus the majority opinion states that "in Intellicall, we affirmed a grant of summary judgment of noninfringement of the '463 patent, holding that the term 'digital display' does not include machine-readable devices." Maj. op. at 3-4. However, in Northern Telecom this court restricted that interpretation to the Intellicall facts:

> [T]he limitation "digital display" does not include machine readable devices, or information given to a computer for later access. Any construction of other limitations in claim 1, including any construction of those limitations at issue here, that we or the district court made in Intellicall was merely dictum, . . .

133 F.3d at 1464 (citation omitted). Thus in 1998 this court refused to give Intellicall the scope that the panel majority now gives it to support a punitive award made a decade later.

In turn, Northern Telecom was limited to equipment manufacturers, as the district court recognized when it stated that: "At that point in the litigation, [Phonometrics'] argument was not completely baseless because there was no precedent from the Federal Circuit requiring such display to the caller." Order of April 12, 2002.

Not until the nonprecedential decision in Choice Hotels did this court present an opinion on the merits of the question of infringement by hotels based on the nature of the display to the user. The Rule 11 sanctions were not requested until Phonometrics thereafter chose to continue this action against these defendants, counsel telling the district court that the Federal Circuit decision was "mistaken." Perhaps the fact that we did not give the Choice Hotels decision precedential force, despite the extensive ongoing litigation, gave hope to Phonometrics that we were uncertain of the broad applicability of that ruling. Rule 11 is a chilling punitive action, and is not properly based on positions that were not known to be false or irresponsible when they were taken.

The panel majority nonetheless relies on Intellicall and Northern Telecom, decisions that the district court recognized as not deciding the issue of hotel room displays. That Choice Hotels cited Northern Telecom "four times," as the majority opinion stresses, does not endow Northern Telecom with sanction-generating prescience as to future decisions, particularly when Northern Telecom itself disposed of a similar assertion for Intellicall as "merely dictum." 133 F.3d at 1464. In addition, this court continually overturned the district court's attempts to dispose of the hotel cases under Rule 12(b)(6). See, e.g., Phonometrics, Inc. v. ITT Sheraton Corp., 2000 WL 286624 (Fed. Cir. Mar. 16, 2000) (unpublished, non-precedential); Phonometrics, Inc. v. Hospitality Franchise Sys., Inc., 203 F.3d 790 (Fed. Cir. 2000). Phonometrics' counsel's optimism that this court would distinguish Northern Telecom, just as Northern Telecom distinguished Intellicall, was not so unreasonable as to warrant Rule 11 sanctions. It was not a violation of Rule 11 to continue to press the client's cause until the Federal Circuit produced a precedential opinion on the merits of the hotel issues.

In support of the Rule 11 punishment here imposed, the majority opinion relies on unpublished decisions, designated by the court as non-precedential and non-citable. That status is not overcome by listing a Westlaw page or an unofficial Appendix. These decisions are not grounds of stare decisis, do not evidence bad faith, and do not import any of the demanding criteria of Rule 11. From the court's contrary holding, I respectfully dissent.

APPENDIX B

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA
WEST PALM BEACH

PHONOMETRICS, INC.,

Plaintiff,

-vs.-

MARRIOTT INTER-NATIONAL, INC., et al.	No. 94-6533-Civ-Ryskamp
INTER-CONTINENTAL CORP.	No. 94-6689-Civ-Ryskamp
HOLIDAY INNS, INC., et al.	No. 94-6691-Civ-Ryskamp
WYNDHAM HOTEL CO., et al.	No. 94-7106-Civ-Ryskamp
LA QUINTA INNS, INC., et al.	No. 94-7127-Civ-Ryskamp
HOSPITALITY FRAN-CHISE SYSTEMS, INC., et al.	No. 97-8125-Civ-Ryskamp

Defendants.

_____/

ORDER GRANTING IN PART AND DENYING IN PART DEFENDANTS' JOINT MOTION FOR RULE 11 SANCTIONS

THIS CAUSE is before the Court upon Defendants Economy Inns of America, Clubhouse Inns of America, AMFAC Resorts, LLC, Four Seasons Hotels, Inc., Grosvenor Hotel Group, Fairmont Hotel Management Co., Park Lane Hotels, Inc., RHI Hotels, Inc., Interstate Hotels LLC, Cendant Corporation f/k/a Hospitality Franchise Systems, Inc.(Case No.97-8125),Wyndham Hotel Co. (Case No. 94-7106), La Quinta Inns, Inc. (Case No. 94-7127), Marriott International, Inc., and Host Marriott Corp.'s (Case. No. 94-6533) Joint Motion for Rule 11 Sanctions, filed January 10, 2002. Defendant Benchmark Hospitality (Case No. 97-8125) filed a Notice of Joinder in this motion on March 4, 2002. Defendant Outrigger Lodging (Case No. 97-8125) filed a Notice of Joinder in this motion on February 11, 2002. Defendant Inter-Continental Hotels Corp. (Case No. 94..6689) filed a Notice of Joinder in this motion on January 11, 2002. Defendant Holiday Inns, Inc. (Case No. 94-6691) filed a Notice of Joinder in this motion on January 11, 2002. This motion is now ripe for adjudication.

I. BACKGROUND

Plaintiff filed complaints against each Defendant alleging patent infringement pursuant to 35 U.S.C. § 100, et seq. Plaintiffs suits stems from its now-expired patent, United States Patent Number 3,769,463 ("'463 patent"), issued on October 30, 1973, to Philip G. Graham and Lawrence Reich and entitled "Electronic Long Distance Telephone Call Computer and Recorder." Claim 1 of the '463 patent requires, among other things, a "call cost register means, including a digital display, for providing a substantially instantaneous display of cumulative call cost in dollars and cents." Plaintiff' alleges that each Defendant uses internal telephone equipment to calculate, display, and record the cost of long distance telephone calls originating within its hotels. Defendants' use of this equipment, Plaintiff'

claims, infringes upon the `463 patent. Because Plaintiff's patent expired on October 30, 1990, it seeks only to recover damages for the period of time prior to expiration.

As described in the Plaintiff's patent itself, the invention permits a caller to set and store the long-distance charges applicable to a particular call and to visually monitor those costs in increasing dollars and cents while the call is in progress. The invention may also be set to indicate elapsed time and to cumulatively indicate the costs of all calls made during a given period of time. (Patent-in-suit, col. 1, lines 37-39). In order to provide this visual display of costs while the call is in progress, the invention includes a digital display which, according to the patent-in-suit, has two functions: 1) to display the cumulative cost of a single call "to continuously remind the caller as to the cost of the call as the call progresses, and 2) to indicate the total cost of the call at completion." (Patent-in-suit, col. 3, lines 27-31). The apparatus thus performs two basic functions: continuous real-time display of the present call's costs to the caller, and a report of the cumulative cost upon the call's completion.

In its opinion Phonometrics. Inc. v. Northern Telecom, Inc., 133 F.3d 1459 (Fed. Cir. 1998), the Federal Circuit went into great detail evaluating the scope of the `463 patent. Specifically, the Federal Circuit restated its previous holding from Phonometrics. Inc. v. Intellicall, 952 F.3d 1384, 1387-88 (Fed. Cir. 1992), that the patent's required "digital display" does not include machine readable devices that merely save call information on a computer for later access. Northern Telecom Inc., 133 F.3d at 1464. The Federal Circuit also held: 1) "substantially instantaneous display of cumulative call cost in dollars and cents" means "functions to display current, accurate information about the costs of a call" that is displayed for costs "as they accrue, in real time, and not only once the call has ended;" 2) the patent

requires that "the costs displayed in the register must be accurate at all times during the call, so that regardless of the point at which the call is terminated, the cumulative cost displayed in the register will be accurate, without further calculation;" and 3) any real-time information provided by the equipment must be provided to "the caller." Id. at 1464-65. In sum, the Federal Circuit found that the following is required for Plaintiff to maintain a patent infringement suit with respect to the '463 Patent: "[A] devise which displays the cumulative costs of along distance call both as charges accrue and after the call has been terminated." Id. at 1466.

On March 19, 2001, this Court stayed all Phonometrics cases pending the resolution of Plaintiffs appeal of a grant of summary judgment in favor of Choice Hotels International. On October 9, 2001, the Federal Circuit affirmed this Court's grant of summary judgment in favor of Choice Hotels and further emphasized the claim construction articulated in Intellicall and Northern Telecom. See Phonometrics. Inc. v. Choice Hotels Int'1. Inc., No. 01-1045, (slip op.) (Fed. Cit. October 9, 2001) (stating that "future panels like the present panel will follow the claim construction set forth by our court in the two decisions [Intellicall and Northern Telecom.]"). After the Federal Circuit re-affirmed the claim construction of the `463 patent set out in Intellicall and Northern Telecom, Plaintiff indicated that he would continue to pursue this case, and on November 27, 2001, this Court released the stay of all Phonometrics cases for the sole purpose of hearing motions for summary judgment.

On January 10, 2002, Defendants filed their Joint Motion for Rule 11 Sanctions. In their joint motion, Defendants argue that Plaintiff violated Rule 11 by pursuing its infringement claims knowing that they are based on a legal theory that has no reasonable chance of success.

Defendants argue that the Federal Circuit's decision in Choice Hotels coupled with its opinion in Northern Telecom establishes that the `463 patent can only be infringed by a telephone system that displays the cost of the call to the caller during the call. Defendants point out that since Plaintiff has admitted to this Court that none of Defendants' hotels utilize such systems, Plaintiffs continual pursuit of these claims violates Rule 11. Defendants seek Rule 11 sanctions in the form of dismissal of Plaintiffs claims and attorneys fees and costs associated with bringing the joint motion for sanctions.

II. DISCUSSION

The Eleventh Circuit has stated that "Rule 11 sanctions are designed to `discourage dilatory or abusive tactics and help to streamline the litigation process.'" Donaldson v. Clark, 819 F.2d 1551, 1556 (11th Cir. 1987) (quoting Pin v. Texaco. Inc., 793 F.2d 1448, 1455 (5th Cir. 1986)).[1] Federal Rule of Civil Procedure 11(b) states that "[b]y representing to the court (whether by signing, filing, submitting, or later advocating) a pleading, written motion or other paper, an attorney or unrepresented party is certifying that to the best of the person's knowledge, information, and belief... the claims, defenses, or other legal contentions therein are warranted by existing law or a nonfrivolous extension... of existing law." The advisory committee's notes to the 1993 Amendment to Rule 11 specifically state that Rule 11 "emphasizes the duty of candor by subjecting litigants to potential sanctions for insisting upon a position after it is no longer tenable." In such light, the Eleventh

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[1] The Federal Circuit applies the law of the regional circuit when reviewing the imposition of Rule 11 sanctions. See Abbott Labs. v. Brennan, 952 F.2d 1246, 1351 n.3 (Fed. Cir. 1991).

Circuit has upheld sanctions for continued advocacy after "it should have been clear that those contentions were no longer tenable." Turner v. Sungard Bus. Sys. Inc., 91 F.3d 1418, 1422 (11th Cir. 1996).

Upon review of the record, it is clear that Plaintiff has violated Rule 11. On February 13, 1997, Plaintiff specifically represented in a hearing before this Court that "the fact of the matter is that there are none of these equipments that these defendants have that has a display to the caller during the call in progress." Transcript of February 13, 1997 Hearing before Judge Kenneth Ryskamp. Plaintiff argued in that hearing that such a display of the cost of the call to the caller during the call was not required for infringement of the '463 patent. At that point in the litigation, Plaintiffs argument was not completely baseless because there was no precedent from the Federal Circuit requiring such display to the caller to find infringement of the `463 patent. See Northern Telecom, 133 F.3d at 1464 (stating that Intellicall only decided the issue of "whether the limitation "digital display' meant only visual display or also encompassed machine readable information" and that "[a]ny construction of other limitations in claim 1 ... made in Intellicall was merely dictum"). From the moment the Federal Circuit issued its opinion in Northern Telecom, however, Plaintiff was on notice that the Federal Circuit's interpretation of the `463 patent requires a real-time visual display to the caller which tracks the cost of along distance call while the call is in progress. When Plaintiff continued to pursue his claims after Northern Telecom, he was advocating legal theories which he knew were no longer tenable. Such continued pursuit of frivolous claims is precisely what Rule 11 is meant to deter.

Defendants waited until after the Federal Circuit had decided Choice Hotels before bringing its joint motion for Rule 11 sanctions. Plaintiff argues that such delay in

bringing the joint motion for Rule 11 sanctions is contrary to the requirement of Rule 11 that all motions for sanctions be made promptly after the challenged conduct takes place. This Court, however, does not find Defendants' joint motion to be untimely. Defendants' decision to wait until after Choice Hotels to bring the motion is reasonable in light of (1) the fact that Northern Telecom did not specifically involve a hotel and (2) this Court's decision to stay all Phonometrics cases pending the appeal of Choice Hotels. Once the Federal Circuit issued its opinion in Choice Hotels, it became absolutely clear that the claim construction of the `463 patent articulated in Northern Telecom applied to all cases construing the `463 patent. Plaintiff s refusal to dismiss its claims after Choice Hotels was simply an egregious violation of Rule 11.

Due to Plaintiff s continued advocacy of frivolous claims, Rule 11 sanctions are appropriate. Such sanctions are to be levied against Plaintiffs counsel, who refused to dismiss the claims and who continued to advocate clearly untenable positions before this Court. In their joint motion, Defendants request Rule 11 sanctions in the form of dismissal of the actions and attorneys' fees and costs associated with bringing the joint motion for sanctions. Since this Court has recently granted summary judgment in favor of each Defendant bringing this joint motion, Defendants' request for dismissal as a Rule 11 sanction is moot. However, since Plaintiffs sanctionable conduct required Defendants to expend time seeking Rule 11 sanctions, Defendants are entitled to the attorneys' fees and costs associated with bringing the joint motion for sanctions.

On a final note, this Court finds that the Defendants Benchmark Hospitality (Case No. 97-8125), Outrigger Lodging (Case No. 97-8125), Inter-Continental Hotels Corp. (Case No. 94-6689) and Holiday Inns, Inc. (Case No. 94-

6691), all of whom filed notices of joinder in this motion, did not comply with the procedural requirements of Rule 11. Rule 11 of the Federal Rules of Civil Procedure specifically states that a motion for sanctions under Rule 11 may not be filed with the court "unless within 21 days after service of the motion the challenged paper, claim, defense, contention, allegation or denial is not withdrawn or appropriately corrected." Although the Defendants named in the joint motion properly complied with the 21-day safe harbor by serving Plaintiff with a letter and a copy of the joint motion 21 days prior to filing the joint motion for sanctions in this Court, Defendants Benchmark Hospitality (Case No. 97-8125), Outrigger Lodging (Case No. 97-8125), Inter-Continental Hotels Corp. (Case No. 94-6689) and Holiday Inns, Inc. (Case No. 94-6691) were not named parties to the safe-harbor letter and motion served upon Plaintiff. Defendants Benchmark Hospitality (Case No. 97-8125), Outrigger Lodging (Case No. 97-8125), Into-Continental Hotels Corp. (Case No. 94-6689) and Holiday Inns, Inc. (Case No. 94-6691) therefore did not serve Plaintiff with a copy of their motion 21 days before its filing. The joint motion for sanctions is thereby denied as to Defendants Benchmark Hospitality (Case No. 97-8125), Outrigger Lodging (Case No. 97-8125), Inter-Continental Hotels Core. (Case No. 94-6689) and Holiday Inns, Inc. (Case No. 94-6691).

For the reasons stated above and after consideration of the motion, the pertinent portions of the record, and oral argument, it is hereby

ORDERED AND ADJUDGED that Defendants Economy Inns of America, Clubhouse Inns of America, AMFAC Resorts, LLC, Four Seasons Hotels, Inc., Grosvenor Hotel Group, Fairmont Hotel Management Go., Park Lane Hotels, Inc., RHI Hotels, Inc., Interstate Hotels

LLC, Cendant Corporation f/k/a Hospitality Franchise Systems, Benchmark Hospitality, Outrigger Lodging (Case No. 97-8125), Wyndham Hotel Co. (Case No. 94-7106), La Quinta Inns, Inc. (Case No. 94-7127), Marriott International, Inc., Host Marriott Corp. (Case No. 94-6533), Inter-Continental Hotels Corp. (Case No. 94-6689) and Holiday Inns, Inc. (Case No. 94-15691) Joint Motion for Rule 11 Sanctions, filed January 10, 2002, is **GRANTED IN PART AND DENIED IN PART** as explained herein. As to Defendants Benchmark Hospitality (Case No. 97-8125), Outrigger Lodging (Case No. 97-8125), Inter-Continental Hotels Corp. (Case No. 94-6689) and Holiday Inns, Inc. (Case No. 94-6691) the joint motion is **DENIED**. As to Defendants Economy Inns of America, Clubhouse Inns of America, AMFAC Resorts, LLC, Four Seasons Hotels, Inc., Grosvenor Hotel Group, Fairmont Hotel Management Co., Park Lane Hotels, Inc., RFU Hotels, Inc., Interstate Hotels LLC, Cendant Corporation f/k/a Hospitality Franchise Systems (Case No. 97-8125), Wyndham Hotel Co. (Case No. 94-7106), La Quinta Inns, Inc. (Case No. 94-7127), Marriott International, Inc., and Host Marriott Corp. (Case No. 94-6533) the request for sanctions in the form of dismissal is **DENIED AS MOOT** and the request for sanctions in the form of attorneys' fees and costs associated with bringing this motion is **GRANTED**. Defendants Economy Inns of America, Clubhouse Inns of America, AMFAC Resorts, LLC, Four Seasons Hotels, Inc., Grosvenor Hotel Group, Fairmont Hotel Management Co., Park Lane Hotels, Inc., RHI Hotels, Inc., Interstate Hotels LLC, Cendant Corporation f/k/a Hospitality Franchise Systems (Case No. 97-8125), Wyndham Hotel Co. (Case No. 94-7106), La Quinta Inns, Inc. (Case No. 94-7127), Marriott International, Inc., and Host Marriott Corp. (Case No. 94-6533) shall submit a statement to this Court which clearly indicates the amount of attorneys' fees and costs expended on this joint

motion for sanctions within ten (10) days of the date of this Order.

DONE AND ORDERED in Chambers at West Palm Beach, Florida, this 12th day of April, 2002.

KENNETH L. RYSKAMP
UNITED STATES DISTRICT
JUDGE

Copies provided:
attached service list

APPENDIX C

United States Patent
3,769,463
Graham et al. Oct. 30,
1973

***

We claim:

1. An electronic solid state long-distance telephone call cost computer apparatus for computing and recording the cost of each long-distance telephone call initiated from a given calling telephone, actuated by the lifting and replacement of the calling telephone to operate switch means coupled to the calling telephone, and further actuated by a call-completion signal generated in the telephone system when a called party answers at a called telephone, the computer apparatus comprising:
call timing means for timing the duration of each completed call;
settable charge selector means for storing initial fixed charge data for a given predetermined initial call interval and incremental charge data for subsequent additional predetermined incremental call intervals;
call cost register means, including a digital display, for providing a substantially instantaneous display of cumulative call cost in dollars and cents;
and computer circuit means, coupled to said switch, to said timing means, to said charge selector means, and to said call cost register means, for automatically recording, in the call cost register means, the cost of each long-distance call made from the calling telephone, said computer circuit means comprising:

reset means for resetting said timing means and said call cost register means immediately upon occurrence of said call-completion signal;

initial cost transfer means initiating operation of said call timing means and for applying the complete initial fixed charge data from said charge selector means to said call cost register means substantially instantaneously upon resetting of said call timing means and said call cost register;

incremental cost transfer means for applying the complete incremental charge data from said charge selector means to said call cost register means substantially instantaneously upon completion of timing out the initial call interval by said call timing means and for again applying the complete incremental charge data from said charge selector means to said call cost register means substantially instantaneously upon completion of timing out of each incremental call interval following said initial call interval;

and termination means for interrupting operation of said computer apparatus, with the cumulative call cost held in and displayed by said call cost register means, upon operation of said switch by replacement of the calling telephone.

APPENDIX D

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA
(West Palm Beach Division)

PHONOMETRICS, INC., Plaintiff,

v.

MARRIOTT INTER-NATIONAL, INC., HOST MARRIOTT CORP.	No. 94-6533-Civ-Ryskamp
HYATT CORPORATION	No. 94-6688-Civ-Ryskamp
HOLIDAY INNS, INC.	No. 94-6689-Civ-Ryskamp
BEST WESTERN INTERNATIONAL INC.	No. 94-6690-Civ-Ryskamp
INTER-CONTINENTAL HOTELS CORP.	No. 94-6691-Civ-Ryskamp
WYNDHAM HOTEL CO.	No. 94-7106-Civ-Ryskamp
HOSPITALITY INTERNATIONAL INC.	No. 94-7107-Civ-Ryskamp
TRIMARK HOTEL	No. 94-7110-Civ-Ryskamp
LA QUINTA INNS, INC.	No. 94-7127-Civ-Ryskamp
HOSPITALITY FRANCHISE SYSTEMS, INC.,	No. 97-8125-Civ-Ryskamp

aka CENDANT CORPORATION, BENCHMARK HOSPITALITY, INC., CLUBHOUSE INNS OF AMERICA, AMFAC RESORTS, LLC, GROSVENOR HOTELS GROUP, FOUR SEASONS HOTELS, INC., FAIRMONT HOTEL MANAGEMENT CO., PARK LANE HOTELS INTERNATIONAL, RHI HOTELS, INC., INNS OF AMERICA, OUTRIGGER LODGING SERVICES, and INTERSTATE HOTELS CORPORATION,

Defendants.

_____/

PLAINTIFF'S OPPOSITION TO DEFENDANTS' JOINT MOTION FOR SUMMARY JUDGMENT

Phonometrics opposes the motion for summary judgment filed by numerous defendants on the ground that there are genuine issues of material fact that cannot be decided summarily. Infringement of a patent is a question of fact, to be decided by the jury. *Markman v. Westview Instruments, Inc.*, 517 U.S. 370 (1996). Infringement requires an analysis of the claims as construed by the Federal Circuit as a matter of law to be applied to the accused devices used by these hotels to provide a record of call cost for hotel guests.

1. THE CLAIM ELEMENTS.

Claim 1 of the '463 patent has seven elements in a "call cost computer apparatus for computing and recording the cost of each long-distance telephone call from a given calling telephone." The seven elements are:

1. Timing means for determining the duration of a completed call or portion of a call.
2. Means for storing charge data for the initial interval and for subsequent intervals.
3. Register means for providing a substantially instantaneous display of cumulative call cost in dollars and cents.
4. Computer means for automatically recording the cost of each long-distance call made from the calling telephone, the computer having means for starting the timing of each call.
5. Initial cost transfer means for initiating operation of the timing means and applying rate data.
6. Incremental cost transfer means for applying charge data to the register means for each interval.
7. Termination means for stopping the computer when the calling telephone hangs up.

Not one of the motions for summary judgment or the affidavits in support of the motions addresses any of these elements. It is a genuine issue of material fact whether defendants have each one of these elements. The complaints charge that defendants infringe the patent, which means that each one of the limitations is present in the accused devices. The Declaration of Qamar establishes that each one of the elements is present in the combination of a PBX and call accounting apparatus. Inferences are to be drawn in favor of the non-moving party *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 255 (1986).

As shown by the Declaration of Qamar, a PBX has a timing means to measure the duration of a call. A PBX also has the destination number, from which the long distance rate may be determined. Rate tables are loaded into the call cost computer for the rate charged from the computer to the destination telephone number. When the PBX sends a data stream consisting of the time of day and the destination number to a computer, the computer calculates cost information substantially instantaneously. In the words of Exhibit A-246, the calculation is "immediately performed."

The data stream from the PBX can be sent at the beginning of the call and at the end of the call (Qamar Decl. para. 47). When sent at the beginning of the call, the computer can calculate cost for any period desired. For example, if one wanted the cost of the first three minutes as AT&T used to charge, the computer would multiply three minutes times the long-distance rate and substantially instantaneously display digitally the cost on the computer monitor. If the guest wanted a record of that cost, the computer would print a record substantially instantaneously.

Likewise, if the cost for each incremental minute added to the initial cost is needed, the computer would display the cumulative cost during the call on the monitor and print a report if desired. The problem with such digital displays and reports is that they serve no useful purpose. A hotel guest does not want a report of the cost of the first three minutes of a ten minute call, then a report of the cost for four minutes, then one for five, six, seven, eight and nine minutes. The guest only wants the cost for ten minutes, so that the cost can be allocated to the proper account "for the purpose of facilitating expense allocating procedures," as the patent states at column 1, lines12-13.

The combination of a PBX and computer has the means to transfer cost data for three minutes and each incremental minute thereafter as stated in claim 1, column 8, line 54 to column 9, line 3. Whether a hotel wants to use these means to prepare reports on less than the total cost of a call is merely a matter of choice. All that is needed is to program the PBX to send data at the beginning of the call to enable the computer to make calculations during the call. Hotels choose to program the PBX to send data at the end of the call because guests do not care to have reports on less than the cost of the entire call. If the computer is not fed the destination telephone number until the call has been terminated, it cannot calculate the cost of the call. The destination number is essential to look up the rate in the rate table in the computer.

Every hotel that has a call accounting computer and a PBX has the seven elements of claim 1 if the patent, namely, means for timing in the PBX, means for storing charge data in the call accounting computer, a call cost register in a computer monitor, computer circuit means in the central processing unit (CPU) of the computer, means for starting the timer in the PBX to measure duration, cost transfer means for transferring calculations made by the CPU to the computer monitor and printer, and means to terminate the computer operation, retaining the cumulative call cost, when the calling telephone hangs up.

2. *NORTHERN TELECOM* DOES NOT GOVERN THIS CASE.

In *Choice*, the Federal Circuit said that it was bound to follow the claim construction in *Intellicall* and *Northern Telecom*. However, both were equipment maker cases, not hotels. Hotels combine some of the claim elements in a PBX with a call cost computer to make the infringing combination

of the seven elements. *Northern Telecom* did not consider the equipment used by these hotels.

Referring to the emphasized elements of the claim in the *Northern Telecom* case under BACKGROUND, the computer monitor is the *call cost register means, including a digital display, for providing a substantially instantaneous display of cumulative cal cost in dollars and cents.*

The *initial transfer means* is the cable from the PABX to the computer (J5) and from the computer to the terminal (J4) shown at A-156 and A-171 attached to the Qamar Declaration. J5 feeds the timing data to the computer and J4 feeds the rate data and calculation of cost to the call cost register.

The *incremental cost transfer means* is likewise the cables from PBX to computer and from computer CPU to the monitor for substantially instantaneous display.

The *termination means* is a switch operated to interrupt computer operation by replacing the calling telephone.

Accordingly, all elements of claim 1 expressed as means plus function are present in the combination of a PBX and a call accounting computer. Means plus function claims are expressly authorized by 35 U.S.C. §112, paragraph 6.

In the section entitled "1. *The Language of Claim 1,*" the Federal Circuit in *Northern Telecom* stated that "a substantially instantaneous display of cumulative call cost in dollars and cents" required "current, accurate information about the cost of a call." However, that is not what the limitation says. It simply calls for "cumulative" information, and says nothing about either "current" or "accurate"

information. It is error to take statements from the specification and read them into the claims *Comark Communications, Inc. v. Harris Corp.*, 156 F. 3d 1182 (Fed. Cir. 1998). The word "current" has a temporal meaning that has nothing to do with an apparatus. An apparatus provides information whenever it is asked to. It is not an apparatus limitation to require something to be done "currently." Similarly, accuracy is not an apparatus limitation. A computer provides whatever information is stored in it. The computer jargon is "garbage in, garbage out." If inaccurate information is fed to a computer, its output will be inaccurate.

Accordingly, the conclusion that the computer monitor must display "current, accurate information" shows that the Federal Circuit failed to understand that there is a difference under 35 U.S.C. §101 between a "machine," claimed in claim 1, and a "process" of operating a computer to provide information at a certain time and with a degree of accuracy.

The failure to distinguish a machine from a process is also revealed in two other passages in *Northern Telecom*, part II.B.1. First is "our interpretation that the register displays cumulated costs as they accrue, in real time, and not only once the call has ended." The computer monitor displays costs that it calculates in the CPU. Those calculations are done substantially instantaneously, but when they are displayed depends on when they are commanded to be displayed. It is a process of operating a computer to display on a monitor something as it happens, "in real time," or after a call has ended.

The second passage is that the computer monitor "provides the caller with real time, accurate information about the cost of the call via digital display as the long

distance charges accrue *during* the call" (emphasis present). The computer monitor is in the office of the hotel, not in the guest room. The computer monitor displays cost of calls from the "calling telephone" (column 8, lines 27 and 49), not from the extension in the guest's room. The display is not required to be to the "caller" in the guest room, but to the "calling telephone" in the hotel. The earlier panel of the Federal Circuit that considered *Intellicall, Inc. v. Phonometrics, Inc.*, 952 F.2d 1384 (Fed. Cir. 1992) recognized that it was error to state that the display was "to the caller" because those words are not in the claims, though it was harmless in that case because the accused had a display to the caller. The panel in *Northern Telecom* disregarded the statement in *Intellicall* that "to the caller" was not in the claims, and ignored all claim construction in *Intellicall* other than that digital display did "not include machine readable devices or information given to a computer for later access."

"Any construction of other limitations in claim 1 [including "to the caller"] that we or the district court made in *Intellicall* was merely dictum, and therefore has no issue preclusive effect for this appeal." Accordingly, while the Federal Circuit noted that a display "to the caller" was not part of the claim in *Intellicall*, it was made part of the claim in *Northern Telecom* by the remark that the claim must "provide the caller" with cost information, not the calling telephone by means of a computer monitor. The inconsistency between the two panel decisions must be addressed.

3. THE *CHOICE* CASE DOES NOT GOVERN THESE CASES.

In the *Choice* case (Exhibit 2 to the Sutton Declaration) the Federal Circuit repeated the error that the

display had to be the hotel guest, not the "calling telephone" of claim 1. It said that the patented device "gives callers cost information". That is wrong. The apparatus provides cost information to the calling party telephone, which is a PBX attached to a computer monitor for a digital display in dollars and cents.

The *Choice* panel erred in holding that *Intellicall* and *Northern Telecom* bound the Court "under the principles of *stare decisis*" to apply the same construction as in these cases. Because the two cases are inconsistent on the issue of "to the caller," and because *Intellicall* claim construction was "merely dictum," *state decisis* or *res judicata* cannot apply.

Infringement is a question of fact, dependent on the nature of the accused devices. Whether one device infringes or not has no bearing on whether another device infringes. Only invalidity can be the subject of *res judicata*.

There has never been a holding of invalidity to which "a plea of res judicata" may apply. *Bernhard v. Bank of America*, 19 Cal. 2d 807, 813, 122 P. 2d 892, 895 (Cal. Sup. Ct. 1942), quoted in *Blonder Tongue, Inc. v. University of Illinois Foundation*, 402 U.S. 242 (1971). For Phonometrics to be barred from relitigating the issue of infringement, three questions must be answered: "Was the issue decided in the prior adjudication identical with the one presented in the action in question? Was there a final judgment on the merits? Was the party against whom the plea is asserted a party or in privity to the prior adjudication?" (*id*, 169 USPQ at 517).

It is the first question that must be decided here. Neither the *Intellicall* case nor the *Northern Telecom* case decided the issue of the present case: Do these defendants infringe? In *Intellicall*, the accused device had a digital

display to the caller of the unused deposit made into the pay phone, a decrementing display. The Court said that claims of the patent call for an "display of cumulative call cost in dollars and cents and . . . none of the accused Intellicall devices satisfies this element of the claim" (21 USPQ2d at 1385). There is no dispute that these hotels have a cumulative display of call cost in dollars and cents, so the issue decided in *Intellicall* does not govern this case.

Also to be addressed is the fact that the words "real time, accurate information" and "during the call" do not appear in the claims. The Federal Circuit interpreted "substantially instantaneous" to mean "during the call," even though it "is not immediately clear, however, what the limitation 'substantially instantaneously' requires." The court looked to the apparatus elements of "transfer means" to determine that the term means during the call, a method limitation regarding the operation of an apparatus. Such a construction is patently absurd, and is contrary to the record, particularly the Declaration of Qamar. The Declaration of Qamar is the full equivalent of an affidavit under Rule 56(e) under 28 U.S.C. §1746.

The Declaration of Qamar shows that the transfer means transfers data "substantially instantaneously" whenever it is desired. If one wants data for each minute during the call, the apparatus is the means to do so. A-246 shows that the calculation of cost information is "immediately performed," which is "substantially instantaneously." That data is displayed on the computer monitor electronically, which is both "digitally" and "substantially instantaneously." The transfer means are the cables J4 and J 5 shown in A-156 and A-171 between the computer monitor and the CPU and between the PBX and the CPU, respectively. Data passes through the cables substantially instantaneously, whether it is commanded to be

sent during the call or after the call has ended. A cable simply cannot establish that data is transferred during a call.

The apparatus also fails to define the data as "real time, accurate information." If the data fed to the computer is inaccurate, the reports will be inaccurate. The apparatus has nothing to do with the accuracy of the output. The computer can accurately calculate cost by multiplying duration times rates. However, if the duration data from the PBX is not accurate, the calculation will not be accurate. Nothing in claim 1 specifies that data must be accurate. A real time display of data is not possible because the changing numbers on a display would be moving so fast as to be a blur. The patent expressly states that the "triggering circuits are strobed when in a fixed state, thereby preventing a blur of changing numbers on the seven-segment displays" (column 5, lines 31-33). If the display was not strobed to keep a constant image for a period of time to be perceived, there would be a blur. This means that a real time display would be an unreadable blur. Claims should not be construed to be impossible to perform the display function.

The Declaration of Sutton shows that hotels have cards or other displays of cost in dollars and cents for informing the hotel guest that local calls are charged at a flat rate. The guest knows before, during and after the local call what the cost is. The computer is programmed to transfer that flat rate to the guest account for each local call. The computer has a digital display of call cost in dollars and cents electronically.

Dated: March 29, 2002 Respectfully submitted,

_____

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Appearing pursuant to MDL
Rule 1.4

APPENDIX E

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA
(West Palm Beach Division)

PHONOMETRICS, INC.,

Plaintiff,

v.

ITT SHERATON CORP.	No. 94-6502-Civ-Ryskamp
HILTON HOTELS CORP.	No. 94-6503-Civ-Ryskamp
WESTIN HOTEL CO.	No. 94-6504-Civ-Ryskamp
HOST MARRIOTT CORP.	No. 94-6533-Civ-Ryskamp
HYATT CORPORATION	No. 94-6688-Civ-Ryskamp
HOLIDAY INNS, INC.	No. 94-6689-Civ-Ryskamp
BEST WESTERN INTERNATIONAL INC.	No. 94-6690-Civ-Ryskamp
INTER-CONTINENTAL HOTELS CORP.	No. 94-6691-Civ-Ryskamp
EMBASSY SUITES, INC.	No. 94-6949-Civ-Ryskamp
FORTE HOTELS, INC.	No. 94-7085-Civ-Ryskamp
CONCORD HOTELS, INC.	No. 94-7087-Civ-Ryskamp
CHOICE HOTELS INTERNATIONAL, INC.	No. 94-7097-Civ-Ryskamp
WYNDHAM HOTEL CO.	No. 94-7106-Civ-Ryskamp
HOSPITALITY INTERNATIONAL, INC.	No. 94-7107-Civ-Ryskamp
TRIMARK HOTEL	No. 94-7110-Civ-Ryskamp
LA QUINTA INNS, INC.	No. 94-7127-Civ-Ryskamp
ACCOR NORTH AMERICA CORP.	No. 94-7129-Civ-Ryskamp
HAMPTON INNS, INC.	No. 95-6209-Civ-Ryskamp

HOSPITALITY FRANCHISE SYSTEMS, INC., et al. No. 97-8125-Civ-Ryskamp

Defendants.
_____/

PLAINTIFF'S OPPOSITION TO JOINT MOTION FOR RULE 11 SANCTIONS

The above caption is the same as that used by the moving papers even though it is incorrect. The term "Joint Motion" suggests that all of the defendants listed in the caption are represented by the moving parties even though that is not the truth. It is not Phonometrics' burden to figure out which defendants join in the motion; it simply points out that not all defendants listed in the caption have joined in the motion.

Another preliminary matter is the safe harbor of Rule 11. The Court dismissed the motion as not complying with the 21-day notice provision of the 1993 Amendment to Rule 11. Phonometrics acknowledges that it received 21 days notice of the motion by receiving a copy, even though the motion as filed failed to accurately state when the document was served on Phonometrics. Phonometrics does have a safe harbor objection to the motion because the challenged paper to be withdrawn is nowhere identified in the motion. However, the 21-day notice provision was met.

These examples of a lack of care in preparing the motion do not affect the merits of the motion. Phonometrics desires to have the motion denied on the merits, not on procedural grounds for the following reasons:

1. RULE 11 CANNOT DETERMINE THE ISSUE OF LEGAL SUFFICIENCY .

Wright, Miller and Kane, *Federal Practice & Procedure*, §1336 points out that "Rule 11 should not be used to raise issues of legal sufficiency that more properly can be disposed of by . . . a motion for summary judgment." This Court lifted the stay of these cases "only for the purpose of hearing motions for summary judgment" (November 27, 2001 Order Lifting Stay). The Rule 11 motion should be denied as failing to meet the purpose set by the Court, with instructions to follow Rule 56, not Rule 11.

"[T]here is a serious concern that an excessive emphasis on sanctions may lead to the greatest evil of the past - - the prospect of too many cases being dismissed or litigated with little regard to the merits; too much litigation about what an attorney knew or did prior to filing a litigation paper, rather than about the merits" Vairo, *Report to the Advisory Committee on Amended Rule 11 of the Federal Rules of Civil Procedure*, 1 (1987). The moving parties seek to sling mud rather than address the merits of the case as the Court instructed.

Rule 11 is simply a satellite proceeding having little to do with the merits of the litigation. There is concern "that the process of enforcing compliance with the requirements of Rule 11 could evolve into satellite proceedings, thereby increasing the cost of litigation and protracting it" Wright, Miller and Kane, *supra*, §1337. The moving parties seek to increase the cost to Phonometrics and stifle zealous advocacy, rather than address the merits.

"The Rambo-like use of Rule 11 by too many lawyers, however, has resulted in increased acrimony in the profession, thereby exacerbating the public's disenchantment

with it" Vairo, *Rule 11 and the Profession*, 67 Fordham L.Rev. 589, 647 (1998).

The increased use of a Rule 11 motion "leads to waste and delay. It also carries with it the potential for increased tension among the parties and with the court. . . . When lawyers go to war under Rule 11, litigation tends to become less manageable" Schwarzer, *Rule 11 Revisited*, 101 Harv. L.Rev. 1013, 1018 (1988).

Let us address the merits, preferably by trial because there are genuine issues of material fact, but at least by the motions for summary judgment that the Court ordered.

2. THE CHALLENGED PAPER IS NOT IDENTIFIED.

There are three elements of the certification under Rule 11 that an attorney: (1) has read the document; (2) has concluded after inquiry into the facts and law that to the best of his knowledge, information and belief, there is good ground to support the document and (3) is acting without an improper motivation. Wright, Miller & Kane, *supra,* §1335. The moving parties seek "Rule 11 Sanctions against the Plaintiff Phonometrics, Inc." (page 2), and Phonometrics is represented by counsel and is not a party that "is not represented by an attorney" under Rule 11(a). There is no claim that an attorney signed any challenged document.

The safe harbor objection is that Rule 11(c)(1)(A) requires 21 days to withdraw or appropriately correct "the challenged paper, claim, defense, contention, allegation or denial." Nowhere in the motion is any such paper identified, so it was impossible to appropriately correct or withdraw it. If there is no opportunity to correct or withdraw an unidentified paper, the safe harbor provision is meaningless.

On page 2, the moving parties complain that "Phonometrics has sued countless hospitality entities," which is not within the compass of Rule 11. The complaints filed against the moving parties are not said to be the challenged papers, but if they were, the challenge is not timely. All of the complaints but one "dating back to 1994" (page 2) were signed by Michael Hursey, former counsel to Phonometrics. He withdrew, with the permission of this Court, shortly thereafter. It would be exceedingly unjust to sanction Mr. Hursey eight years after the complaints were signed and six or seven years after he withdrew. "Because of the impact sanctions may have on a lawyer's reputation and his finances, basic fairness dictates that those interests be given due process consideration. Due process standards . . . are essential means of preventing judicial mistakes and guard against arbitrary and capricious judicial behavior" Oliphant, *Rule 11 Sanctions and Standards: Blunting the Judicial Sword*, 12 Wm. Mitchell L.Rev. 731, 740-741 (1986).

Due process was discussed by the Eleventh Circuit in *Donaldson v. Clark*, 819 F.2d 1551, 1560 (11th Cir. 1987): "Questions of whether an attorney made a good faith argument under the law or whether an attorney interposed a pleading, motion or other paper for an improper purpose are more ambiguous and may require more specific notice of the reasons for contemplating sanctions. If sanctions are proposed to be imposed on the client, due process will demand more specific notice because the client is likely unaware of Rule 11 and should be given the opportunity to prepare a defense."

Attorney Hursey had a good faith argument under the law because a patent is presumed valid under 35 U.S.C. § 282, and no one has ever proved it to be invalid. Nor has anyone even alleged that the complaints were filed for any

improper purpose. The complaints were not field by Phonometrics unrepresented by counsel, so Rule 11 does not apply to Phonometrics. The need for specific notice or the reasons for contemplating sanctions has not been met in the moving papers, so the motion must be denied.

The allegation that the legal theory now relied upon by Phonometrics is unsound (page 5) is not an identification of any challenged document. It is merely argument.

The moving papers claim that "Phonometrics has had its day in court" (page 5). It has not had its day in court against the moving parties. It was the goal of the lifting of the stay to permit Phonometrics to have its day in court, but the moving parties chose not to file a motion for summary judgment. Refusal to dismiss claims (page 5) is not a paper certified by an attorney, so it is not behavior that can be sanctioned. The Rule 11 reliance is misplaced.

3. THE MOTION IS NOT TIMELY.

Rule 11 motions should be made promptly after the challenged conduct takes place *Mary Ann Pensiero, Inc. v. Lingle*, 847 F.2d 90, 100 (3rd Cir. 1988). A delay of 33 months between sanctionable conduct and requests for sanctions was inordinate and justified rejection of the request *General Motors Acceptance Corp. v. Bates*, 954 F.2d 1081, 1086 (5th Cir. 1992).

If the conduct in question is "its filing of suits against all of these hotel Defendants" (page 4), then the moving parties have waited eight years to act. That is not timely.

An attorney shall "not remain idle after a 'motion, pleading, or other paper' filed in violation of Rule 11 by his opponent has come to his attention" *Thomas v. Capital*

Security Services, Inc., 836 F.2d 866, 879 (5th Cir. 1988 *en banc*). If the filing in 1994 by Attorney Hursey is the conduct alleged to be sanctionable, waiting many years after he withdrew from the litigation to come forward is simply too late. The motion should be denied.

4. THE PLEADINGS AND MOTIONS ARE NOT SANCTIONABLE.

The moving parties have utterly failed to set forth reasons why any papers can by challenged. In fact, the Federal Circuit has expressly held that the notice pleading engaged in by Phonometrics is perfectly proper. The Eleventh Circuit has also pointed that Rule 11 does not change the notice pleading regime. "Rule 11 does not change the liberal notice pleading regime of the federal courts or the requirement of Fed. R. Civ. P. 8, which demands only a 'short and plain statement of the claim.' This rule does not require that pleadings allege all material facts or the exact articulation of the legal theories upon which the case will be based" *Donaldson, supra*, at 1561.

Just as Rule 12(b)(6) does not require fact pleading, as many of the moving parties learned from an earlier Federal Circuit case, so too does Rule 11 not change the regime.

CONCLUSION

The motion must be denied.

Dated: January 16, 2002 Respectfully submitted,

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